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ABSTRACT

This secondary distributive education performance-based instructional unit on buying and pricing contains thirteen lesson plans, each based on a fifty-five minute period. Among the topics covered are the following: (1) the importance of analysing the customers' demands for merchandise before planning what and when to buy, (2) questions about consumers' needs that must be answered before a buyer can purchase intelligently for consumers, (3) different methods available for purchasing for a small or large business, (4) methods which may be used to keep track of profitable sources of supply, (5) factors considered by the buyer in determining the retail price on a given product or service, and (6) the legal restrictions placed on pricing by the Fair Trade Acts and the Unfair Sales Practices Act. Each lesson plan includes most of the following elements: information sheets, assignment sheets, transparency masters, key and answer sheets, and teacher reference sheets. A list of terminal and enabling objectives and a pre-assessment instrument and key precede the lesson plans. Optional activities, a bibliography, a post-assessment instrument, and key and unit evaluation are included at the end of the unit. (LRA)

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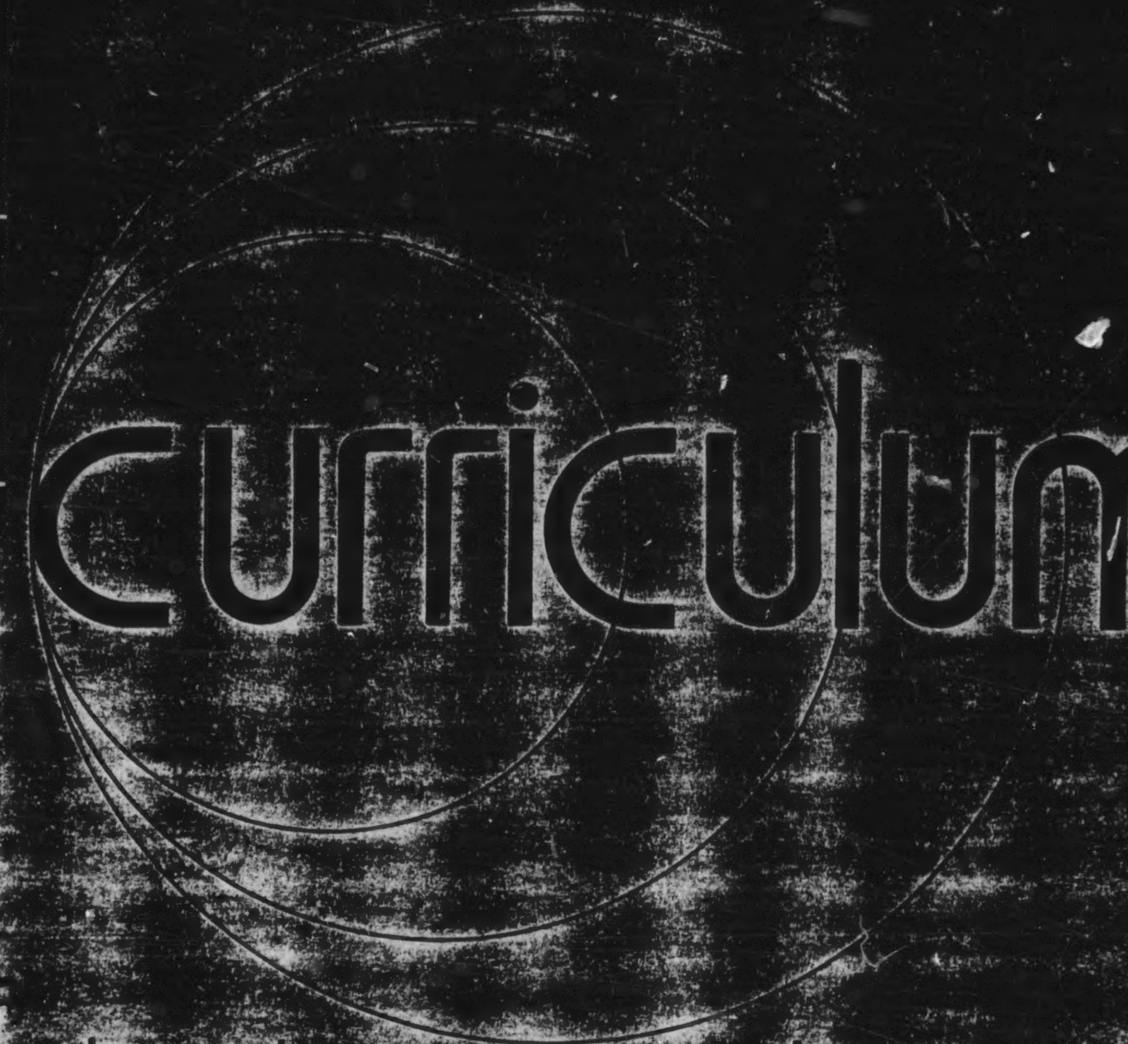
Buying and Pricing

DE 31

Instructor Material



curriculum

distributive education

PRACTICAL ARTS
AND
VOCATIONAL-TECHNICAL
EDUCATION

iml

INSTRUCTIONAL MATERIALS LABORATORY
UNIVERSITY OF MISSOURI-COLUMBIA

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BUYING AND PRICING

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LESSON PLAN FORMAT

INTRODUCTION AND OBJECTIVES	BLUE
UNIT OUTLINE	WHITE
PRE-ASSESSMENT	BUFF
PRE-ASSESSMENT KEY	GREY
LESSON PLANS	YELLOW
INFORMATION SHEETS	PINK
ASSIGNMENT SHEETS	GREEN
TRANSPARENCY MASTERS	WHITE
KEY AND ANSWER SHEETS	GREY
TEACHER REFERENCE SHEETS	BLUE
OPTIONAL ACTIVITIES AND BIBLIOGRAPHY	WHITE
POST-ASSESSMENT	BUFF
POST-ASSESSMENT KEY	GREY
UNIT EVALUATION	BUFF
UNIT EVALUATION KEY	GREY

FOREWORD

The Missouri Distributive Education Curriculum is a performance-based curriculum for distributive education throughout the state of Missouri. This curriculum system is composed of twenty units, ten designed for use in junior preparatory classes and ten for senior cooperative distributive education classes. All units were written by teams of distributive education teacher-coordinators. Performance objectives and content of the units were validated by advisory committees composed of persons in business and during the field-tests conducted by distributive education teacher-coordinators in their classrooms. The units were then corrected, improved, and made ready for final printing.

Each unit is self-contained, which means that, unless desired, no outside reference is needed to teach the unit. Each unit also has suggested optional activities to supplement instruction. The units can be viewed in two ways: as a "survival kit" for a beginning teacher or as an organizational aid to the experienced teacher.

Philosophy of the Curriculum

Almost without exception, instruction is intended to equip students to do something beyond the classroom. It seems beyond debate that any instruction must be based upon a definite analysis of what the student is expected to be able to accomplish as a result of the instruction. Without a clear description of the kind of behavior that will be required of the student, it is impossible to determine with any degree of precision what is to be taught. With this in mind, a careful and thorough analysis of "what the student must do" and "what the student must know" in order to perform in a desirable manner in business was conducted during the development of the objectives for the units.

A terminal performance objective and appropriate enabling objectives for each unit were formulated. The objectives were developed by teams of experienced coordinators drawing on their own expertise, other curriculum materials, and the research of Crawford, Lynch, and others. The objectives and the corresponding unit performance evaluations were then validated by people representing the business community.

Unit Components

Each unit is completely self-contained. All instructional materials necessary to teach each unit are provided. To supplement the teaching of the units, optional activities are suggested. Each unit follows a unique color-coding and numbering system. The units contain the following components:

Introduction: This component provides a thumbnail sketch of the unit and the content and describes why mastery of the objectives is important to the learner. It is designed to motivate the students as well as orient them to the unit.

Performance Objectives: The terminal objective specifies the performance which will be expected of the learner at the completion of the unit. The enabling objectives specify the information, products, and competencies which must be mastered or produced by the students in order to be able to perform the terminal objective.

Pre-Assessment: This is a measurement tool to determine the degree of knowledge and/or competency the students already possess of the unit's content. For some units, the pre-assessment is a paper-pencil pre-test. For other units, the pre-assessment consists of pertinent questions and class discussion.

Unit Outline: This presents a table of contents of the unit, the time required for the unit, and the materials and resources needed.

Lesson Plans: Lesson plans are presented for each day of the unit accompanied by all necessary material including student information sheets, assignment sheets, and teacher materials.

Post-Assessment: This is an objective examination which measures the student's mastery of the enabling objectives. Theoretically, its purpose is not to determine a grade, but to inform the teacher as to whether or not the students are prepared to attempt the unit performance evaluation.

Unit Evaluation: Each unit contains an evaluation of the student's performance or development of a product which is related as closely as possible to actual practice in the world of work. For many units, business people are utilized as evaluators. The unit performance evaluation is critical to effective instruction of the unit because only then will the teacher and students know whether or not the students actually mastered the unit.

Unfortunately, many teachers decide to "take a short cut" and eliminate the unit evaluation. Ending the unit with the post-instruction assessment falls far short of concluding the unit. Everything accomplished in the classroom from the day the unit was introduced to the completion of the post-instruction assessment has been designed so that the student would be able to attempt the unit performance evaluation.

This evaluation has been developed to determine realistically whether or not the student can satisfactorily perform the terminal objective which specifies the performance expected of the learner at the completion of the unit.

For example, the performance required for the unit, *Getting a Job*, is an actual job interview. For *Parliamentary Procedure*, the performance evaluation is to conduct a meeting using parliamentary rules. For *Economics of Marketing*, the performance evaluation is to develop a product, identify the market functions, define a marketing concept for the product, show to what market segments will be appealed, classify what stores will sell the product, determine what channels of distribution will be used, and ascertain what marketing strategy will be used based on the psychological needs of consumers. The unit evaluation, properly conducted, will serve the following purposes:

*Provides a "doing" activity for students and an opportunity for them to display the skills and competencies they have acquired.

*Provides students with an opportunity to gain a sense of pride in their accomplishments, as they satisfactorily complete the activity.

*Provides students with an opportunity to receive constructive first-hand knowledge of what is taught in a distributive education program.

*Serves as a good public relations tool for the distributive education program and could definitely enhance placement of students on jobs.

How to Use the Units

Each unit has a unit numbering system and is color-coded for the convenience of the teacher. Each unit has been assigned a number which is found on the objective sheet. For example, the first unit is *Orientation to Distributive Education and DECA*. The unit number and the objective number are always the same; in this case, it is 1.00.

Each unit contains a terminal objective (blue sheet). The terminal objective will always be 1.00, 2.00, 3.00 . . . 20.00. The enabling objectives will always follow the terminal objective on blue sheets. Enabling objectives for each unit are always prefaced with the unit number and are numbered consecutively. For example, 2.06 is the sixth enabling objective in the second unit.

The lesson plans (yellow sheets) are numbered within the units in the order in which they are to be taught and are not to be confused with the terminal or enabling objectives numbering system.

Lesson plan 12.08, for example, is for the eighth lesson in unit twelve. In the lesson plan, the enabling objective(s) is listed that will be concentrated on during that lesson.

The assignment sheets (green), the information sheets (pink), and the transparency masters (white) are numbered according to the daily lesson plans, not the terminal or enabling objectives. For example, the first assignment sheet for lesson plan 12 is assignment sheet 12.01. The first transparency master for lesson plan 12 is TM 12.01. The information sheets, assignment sheets, and transparency masters are keyed to the lesson plan but are numbered independently of each other. Depending on what is being taught during the lesson, there could be several different assignment sheets, information sheets, or transparency masters or a combination of all three.

Students should be provided copies of the objectives, information sheets, and assignment sheets. These are available in sufficient quantities for classes at the Instructional Materials Laboratory at the University of Missouri-Columbia. These student materials can be given to students as a packet at the beginning of the unit to be used as needed, or the teacher may elect to give students the necessary materials on a daily basis.

There are two assessments at the end of each unit. One is the post-assessment (buff), and the other is the unit evaluation (buff).

Suggested Use of Units

Two-Year Programs

First Year:

Orientation to D.E. and DECA

Parliamentary Procedure

Careers

Human Relations in Marketing and Distribution

Communications

Retailing

Free Enterprise

Physical Distribution

Mathematics

Getting a Job

Second Year:

Selling

Human Relations on the Job

Customer Services

Sales Promotion

Operations

Buying and Pricing

Marketing Analysis

Economics of Marketing

Operating Your Own Business

Preparing for Your Career Promotion

One-Year Programs

Orientation to D.E. and DECA

Parliamentary Procedure

Careers

Human Relations in Marketing and Distribution

Communications

Mathematics

Getting a Job

Selling

Human Relations on the Job

Economics of Marketing

BUYING AND PRICING

INTRODUCTION

Buying of merchandise for resale is a glamorous part of retailing. Goods purchased, however, are expected to sell quickly and at a price that will provide a profit on the investment. The buying process starts with an analysis of customer demand. This leads to determining what to buy, how to buy, where to buy, and how much to buy. Through all these considerations runs the question of what retail prices to place on purchases. While each purchase need not contribute to profits directly, the overall pricing operation must yield a profit if the store is to grow and prosper.

Retail Merchandising, 8th Edition, Wingate and Samson, Southwestern Publishing Co., Cincinnati, Ohio 45227 p. 181.

BUYING AND PRICING

OBJECTIVES

Terminal Objective:

16.00 After the completion of this unit, the student should be able to choose a product and decide how he or she will buy and price it for a local store.

Enabling Objectives: After the completion of this unit, the student will be able to:

16.01 Discuss the importance of analyzing the customers' demands for merchandise before planning what and when to buy.

16.02 Determine some of the questions about consumers' needs that must be answered before a buyer can purchase intelligently for consumers.

16.03 Look at the information from store stock records and sales records that would be useful in determining what to buy.

16.04 Examine the way the store coordinates the merchandise throughout the store before deciding what to buy.

16.05 Study the coming promotional activities and sales plans that can be used to set up a buying schedule.

16.06 Suggest some basic fundamentals that can be used to determine when and how much to buy, regardless of the size of the store or the type of merchandise.

16.07 List the different methods available for purchasing for a small business.

16.08 List the different methods available for purchasing for a large business.

16.09 Decide from where and from whom to buy.

16.10 Select a method which may be used to keep track of profitable sources of supply

16.11 Explain the process by which goods and services in several different types of businesses are marked up and discounted.

16.12 Explain the process by which goods and services in several different types of businesses are marked down and discounted.

16.13 Identify the factors considered by the buyer in determining the retail price on a given product or service.

16.14 Decide what the various pricing policies may be and how they influence the prices and goals of a store.

16.15 Describe the legal restrictions placed on pricing by the "Fair Trade Acts: and the "Unfair Sales Practices Acts".

16.16 Complete the Post-assessment test with a minimum accuracy of 75%.

16.17 Choose a product and determine how to buy and price it for a local store.

BUYING AND PRICING

UNIT OUTLINE

I. Time for Unit: Fifteen 55-minute class periods

II. Materials

- A. Introduction
- B. Objectives
- C. Lesson Plan #1
  - 1. Pre-assessment
  - 2. Pre-assessment Key
  - 3. Information Sheets
    - a. 1.01: Studying The Customer
    - b. 1.02: Consumer Demand
  - 4. Assignment Sheets
    - a. 1.01: Consumer Demand
    - b. 1.01: Consumer Demand Key
    - c. 1.02: Customer Analysis
    - d. 1.02: Customer Analysis Key
    - e. 1.03: Successful Businesses
    - f. 1.03: Successful Businesses Key
  - 5. Transparency Masters
    - a. 1.01: Sources Of Market Information
    - b. 1.02: What And How Much Is Enough?
- D. Lesson Plan #2
  - 1. Information Sheets
    - a. 2.01: Planning Stock Composition
    - b. 2.02: The Merchandise Plan
  - 2. Assignment Sheets
    - a. 2.01: Developing The Basic Stock List
    - b. 2.01: Developing The Basic Stock List Key

        c. 2.02: Miller's Shoe Store
        d. 2.02: Miller's Shoe Store Key

    3. Transparency Masters

        a. 2.01: Price Lines
        b. 2.02: Merchandise Plan
        c. 2.03: Basic Stock List

E. Lesson Plan #3

    1. Information Sheet

        a. 3.01: Elements Determining The Buyer's Policy For Merchandise

    2. Assignment Sheets

        a. 3.01: Determining Merchandise Turnover
        b. 3.01: Determining Merchandise Turnover Key
        c. 3.02: Duties Of A Buyer
        d. 3.02: Duties Of A Buyer Key

F. Lesson Plan #4

    1. Information Sheet

        a. 4.01: Establishing Market Contacts--Small And Convenience Goods Stores

    2. Assignment Sheets

        a. 4.01: Rating Suppliers
        b. 4.01: Rating Suppliers Key
        c. 4.02: Establishing Market Contacts--Small Stores
        d. 4.02: Establishing Market Contacts--Small Stores Key

G. Lesson Plan #5

    1. Information Sheet

        a. 5.01: Establishing Market Contacts--Large And Shopping Goods Stores

    2. Assignment Sheet

        a. 5.01: Establishing Market Contacts--Large Stores
        b. 5.01: Establishing Market Contacts--Large Stores Key

H. Lesson Plan #6

    1. Information Sheets

        a. 6.01: Selecting Resources
        b. 6.02: Preparing A Resource File

2. Assignment Sheet

   a. 6.01: Preparing A Resource File
   b. 6.01: Preparing A Resource File Key

I. Lesson Plan #7

   1. Information Sheet

      a. 7.01: Markup

   2. Assignment Sheet

      a. 7.01: Markup
      b. 7.01: Markup Key

J. Lesson Plan #8

   1. Information Sheets

      a. 8.01: Markdown
      b. 8.02: Discount

   2. Assignment Sheets

      a. 8.01: Markdown
      b. 8.01: Markdown Key
      c. 8.02: Markdown Problems
      d. 8.02: Markdown Problems Key
      e. 8.03: Discount Problems
      f. 8.03: Discount Problems Key

K. Lesson Plan #9

   1. Information Sheet

      a. 9.01: Determining Price

   2. Assignment Sheet

      a. 9.01: Determining Price
      b. 9.01: Determining Price Key

L. Lesson Plan #10

   1. Information Sheet

      a. 10.01: Pricing Policies

   2. Assignment Sheet

      a. 10.01: Pricing Policies
      b. 10.01: Pricing Policies Key

M. Lesson Plan #11
    1. Information Sheet
        a. 11.01: Legal Restrictions Placed On Pricing
    2. Assignment Sheet
        a. 11.01: Legal Restrictions Placed On Pricing
        b. 11.01: Legal Restrictions Placed On Pricing Key

N. Lesson Plan #12
    1. Post-assessment
    2. Post-assessment Key

O. Lesson Plan #13
    1. Unit Evaluation
    2. Unit Evaluation Key

P. Bibliography

BUYING AND PRICING

LESSON PLAN #1

Time for Lesson: Three 55-minute class periods

Objectives: After completion of this lesson, students should be able to:

16.01 Discuss the importance of analyzing the customers' demands for merchandise before planning what and when to buy.

16.02 Determine some of the questions about consumers' needs that must be answered before a buyer can purchase intelligently for consumers.

16.03 Look at the information from store stock records and sales records that would be useful in determining what to buy.

Resources:

1. Pre-assessment
2. Pre-assessment Key
3. Information Sheet 1.01: Studying The Customer
4. Information Sheet 1.02: Consumer Demand
5. Assignment Sheet 1.01: Consumer Demand
6. Assignment Sheet 1.01: Consumer Demand Key
7. Assignment Sheet 1.02: Customer Analysis
8. Assignment Sheet 1.02: Customer Analysis Key
9. Assignment Sheet 1.03: Successful Businesses
10. Assignment Sheet 1.03: Successful Businesses Key
11. Transparency Master 1.01: Sources Of Market Information
12. Transparency Master 1.02: What And How Much Is Enough?

Teacher Activities:

1. Administer Pre-assessment.
2. Check and discuss answers with students.
3. Distribute Information Sheet 1.01 for students to study and discuss.
4. Display and discuss Transparency Master 1.01.
5. Distribute Assignment Sheet 1.01 for students to complete for teacher evaluation and review.
6. Distribute Information Sheet 1.02 for students to study and discuss.

7. Display and discuss Transparency Master 1.02.
8. Distribute Assignment Sheets 1.02 and 1.03 for students to complete for teacher evaluation and review by the next class period.

Student Activities:

1. Complete Pre-assessment.
2. Read and discuss Information Sheet 1.01.
3. Complete and review Assignment Sheet 1.01 with the teacher.
4. Read Information Sheet 1.02.
5. Complete Assignment Sheets 1.02 and 1.03 by the next class period.

BUYING AND PRICING

PRE-ASSESSMENT

Directions: In the space provided, place a "T" if the item is true and an "F" if the item is false.

_____ 1. The retailer knows well in advance of sales exactly what the customer wants and needs.

_____ 2. A good retailer is more concerned with sales than with quality merchandise.

_____ 3. Large and small stores use different methods for determining what to buy.

_____ 4. Manufacturers and producers are a good resource in determining merchandise to resell.

_____ 5. The laws pertaining to the resale of goods to the consumer are very strict and offer protection to both the retailer and the consumer.

BUYING AND PRICING

PRE-ASSESSMENT KEY

1. F
2. F
3. T
4. T
5. T

While answers are being checked, the instructor should ask related questions and discuss the Pre-assessment with the students.

BUYING AND PRICING

INFORMATION SHEET 1.01

Studying The Customer

Successful buying for resale is an outgrowth of the image that the store management wishes to project. The manager's selection is influenced by the manager's own skill and resources in implementing a particular policy.

Buying and the Store Image

Since no store can hope to attract everyone, good judgment in selecting the right merchandise policies is essential. For example, a large city department store recently doubled its sales volume and made itself the city's fashion leader by selecting exclusive (not available elsewhere) merchandise as its major characteristic. To accomplish this, the store sends more buyers to Europe than any other competing store; it is constantly in search of little-known manufacturers who produce distinctive merchandise that will appeal to sophisticated people. Buyers are constantly challenged by management to search for the unusual and the exclusive. They are assisted by expert fashion coordinators and by the members of a fashion "research and development" department. They are given great freedom in controlling their advertising expenditures and the size of their sales force. In this store, little attempt is made to meet price competition, even in the relatively few items that are available elsewhere. Unprofitable and highly competitive lines, such as major appliances and inexpensive furniture, have been dropped entirely.

This store's remarkable success provides an excellent example of the importance of a clear-cut merchandise policy. In this case it is exclusiveness, expressed in the merchandise selections in all departments of the store. Not many stores, of course, have both the proper kind of customer and the skill to make exclusiveness the central policy. Every store, however, must build its assortments around certain features such as quality, fashion, wide assortments, in-depth stocks of best sellers, consistently low prices, or special sales featuring bargains. Each merchant must try to select those few merchandise features that will build for the store a clear-cut and attractive image, rather than attempting to be all things to all people.

Even in the highly competitive supermarket field, where low price is often the most appealing merchandise feature, it is possible to attract customers by means of characteristics other than price. For example, one great chain store's prices on national brands are often higher than those of their competitors. Nevertheless, they attract a large segment of the public because their stores are clean, the quality of their meats and produce are outstanding, and the stock is so arranged as to make selection easy. Stores offer their own private brands that account for about one-fourth of their sales volume for customers who demand the lowest prices.

Determining Customer Wants

A retail enterprise or any enterprise cannot attract all individuals, despite efforts to try to do so. Some people will always go to specialty shops with special services and amenities, while others will prefer self-service with no additional benefits.

A few retailers find that attracting certain customers is purely accidental. Yet, most retailers study customer wants and needs in order to determine which items to select for resale in a specific merchandise policy. The retailer must come to know customers' tastes and preferences and the current changes taking place in their styles of living in order to become a successful entrepreneur. For instance, what does the youth of the community want and like? Since more and more wives are employed and now shop with their husbands in the evening, will impulse merchandise sell better than before? What new merchandise will make life easier or more pleasant for the customers who come into the store?

How can a retailer tell what customers will want? Many sources of market information are available to all retailers. They can be analyzed into two basic sources of information--internal and external.

Internal Sources of Information

Many feedback devices within the retail enterprise are readily available to the merchant. They include past sales, want slips, comparison shopping, and customer surveys.

Past sales. A careful analysis of past sales records tells much about what customers want. Sales records can provide information as to the kinds, quantities, colors, sizes, and prices of merchandise that has been sold. Past sales records give a fairly reliable indication of recurring customer demands.

Want slips. One way to determine what customers want that the store presently does not carry is to talk to customers and to require salespeople to report on merchandise requested by customers. Since salespeople often forget the details regarding such merchandise, they may be supplied with want slips on which to record everything asked for that is not in stock. When a salesperson succeeds in selling an article other than that requested, the substitution is also reported on the want slip. By studying these reports, a store may find that there is a definite demand for certain articles.

The report of substitution sales on want slips indicates which goods in stock can readily be substituted for articles requested but not carried. This knowledge may make it unnecessary to buy some articles in which customers show only a passing interest.

Comparison shopping. An indirect way of determining customer demand is to study the activities of competitors. Merchants watch the advertisements and the windows of competitors and occasionally have their salespeople visit competing stores as though they were customers. Large stores have special comparison bureaus for this purpose and are able to determine whether competitors are selling the same articles at a lower price. Such comparison shopping may also show that a competitor is doing a good business with a type of merchandise that the merchant does not even carry in stock. Comparison shopping can supplement the want slip system in keeping up assortments of popular goods and can provide the merchant many good ideas for display and personal salesmanship.

Merchants find it desirable to watch the advertisements of stores in nearby towns and in metropolitan centers. Local customers may make occasional buying trips to these places, and they may demand articles of merchandise being sold in large cities. By watching the demand in these places, stores find out what goods may become popular at home. Some articles sell well in a metropolis just a few weeks before the small town stores experience a demand for the same articles.

Customer surveys. While the average small store is not in a position to conduct consumer research on a sophisticated basis, it often has access to such surveys conducted by the manufacturers whose products it carries. (This information is actually used by the manufacturer in setting the specifications and design for the product.) The predicted sales from this survey guide the retailer in placing his/her order. Large stores may have trained personnel who plan and conduct studies about customer preferences and their intentions to buy.

External Sources of Information

In addition to internal sources of market information, there are external sources available to the retailer. They include: vendors, trade publications, resident buying offices, and miscellaneous sources such as trade shows.

Vendors. Taking the advice of salespeople and sales representatives on new styles and colors that are selling best may prove worthwhile to some merchants. But, other merchants are inclined to think that vendors are interested in serving themselves first and the merchant second. Some merchants feel that if a vendor has slow moving stock, they may try to pawn it off on unaware buyers. However, more often than not, close relationships are made between a buyer or merchant and the vendor, and neither would jeopardize the relationship with poor decision-making.

Trade publications. There are so many different types of trade journals available it would be hard to find a type of business without one. Various pertinent information can be sought from such publications, including new trends and developments, suppliers and vendors, and current successful operations. There hardly exists a merchant without at least one trade publication subscription. Can you think of some well-known trade publications to which the merchant for whom you work may subscribe?

Resident buying offices. Resident buying offices are most widely used by department and specialty store merchants as one of their major sources of marketing information. These offices are located in the major wholesale markets. They keep informed of all the new developments in the field and serve as the major communication network for the merchant.

Trade or merchandise shows. Trade or merchandise shows usually introduce new products or developments in a specific field. At these shows many of the manufacturers present their lines for the upcoming season. Trade shows make decisions for the merchants easier because the selection is located in one place, and these shows perform a screening function for retail buyers. Merchants often may make selections for part or all of their merchandising commitments at a typical trade show or convention.

Retail Merchandising, 8th Edition, Wingate and Samson, Southwestern Publishing Co., Cincinnati, Ohio 45227 pp. 183-88.

BUYING AND PRICING

INFORMATION SHEET 1.02

Consumer Demand

All motives have direction. All buying motives are aimed at acquiring goods and services. Each buying motive has a definite goal, although the goals will differ from time to time and from customer to customer.

One motive may have many buying effects. The desire to achieve recognition may result in joining a country club, buying a mink coat, or buying an expensive house.

Different motives may lead to the same buying action. A person may buy a beautiful painting because he/she wants to achieve recognition, because he/she wants beauty to surround him/her, or because the painting represents a good investment and thus gives security to the individual.

Motives may operate together or opposite each other. A person may buy a book because he/she wants both knowledge and relaxation. An overweight person may want a box of chocolates to satisfy his/her appetite but may know that the purchase will be in conflict with the desire to achieve recognition because of an attractive appearance.

Motives vary in intensity. A customer who lives in the suburbs and works downtown will have a much stronger motive for buying a new car than will a person who lives only a few blocks from the job.

Motives must function in a physical environment. If a consumer wants to have his/her hair cut but finds that the shops are closed, the consumer cannot achieve the goal because of physical limitations.

Motives may be conscious or unconscious. The desire to satisfy one's appetite is usually a conscious buying motive. The desire to buy a new dress or suit may be unconscious; the consumer may not know he/she wants a new dress or suit because it satisfies the desire for recognition.

Motives operate somewhat because of habit. A person may stop to buy lunch in a restaurant, not necessarily because of a desire to satisfy appetite but because he/she has formed the habit of eating a meal in the middle of the day.

Fundamentals of Selling, 9th Edition, Wingate and Nolan, p. 121.

BUYING AND PRICING

ASSIGNMENT SHEET 1.01

Consumer Demand

Directions: Answer the following questions.

1. What are the two basic sources of market information available to all retailers?

   a.

   b.

2. List four feedback devices within a business to help determine the best stock of merchandise to carry.

   a.

   b.

   c.

   d.

3. List four sources of market information outside the business available to the buyer.

   a.

   b.

   c.

   d.

4. List six motives for consumers acquiring particular goods or services.

   a.

   b.

   c.

   d.

   e.

   f.

5. The two types of buying motives are:

a.

b.

6. Characteristics other than price which often appeal to the customer are:

a.

b.

c.

d.

e.

Directions: In the space provided, place a "T" if the item is true and an "F" if the item is false.

_____ 7. A clear-cut merchandise policy is essential to the success of any business.

_____ 8. A merchant must select the merchandise features that will build the best store image for the location and types of customers.

_____ 9. The retailer must know the customers' tastes and the current environment in which they live that determines their lifestyle.

_____ 10. A want slip is a form filled out by the salesperson telling what changes he/she would like made in the business.

_____ 11. Past sales records are very unreliable indications of what customers will want to buy.

_____ 12. Studying the activities of competitors reduces the time and ability of the buyer to select his/her own appropriate merchandise.

_____ 13. Popular items sold in a large city do not become popular as fast in a small city.

_____ 14. The vendor can usually be relied upon for guidance in selection of stock.

_____ 15. Trade shows and conventions present the newest line of merchandise all in one location for the convenience of the buyer.

BUYING AND PRICING

ASSIGNMENT SHEET 1.01

Consumer Demand Key

1. a. internal
   b. external

2. a. past sales
   b. want slips
   c. comparison shopping
   d. customer surveys

3. a. vendors
   b. trade publications
   c. resident buying offices
   d. trade shows and conventions

4. a. recognition and self-satisfaction
   b. security
   c. knowledge
   d. relaxation
   e. need
   f. habit

5. a. conscious
   b. unconscious

6. Any five of the following:

   a. exclusiveness
   b. quality
   c. fashion
   d. assortment
   e. in-depth stocks of staple merchandise
   f. special sales
   g. clean stores
   h. easy selection
   i. low overhead costs
   j. self-service

7. T

8. T

9. T

10. F

11. F

12. F

13. T

14. T

15. T

ASSIGNMENT SHEET 1.02

Customer Analysis

The astute retail buyer studies the demographics of the trading area of the business before ordering merchandise. These demographics (study of characteristics of human populations, as size, growth, density, distribution, and vital statistics) are mostly population characteristics--size of area served; average income; age; marital status and family size; education; car and home ownership; customer habits in pricing, quality, etc. For example, people in the suburbs tend to buy casual clothes, hobby items, sporting goods, and home-care products; those within the high average income bracket look for expensive and better quality merchandise. Those in the low income bracket like a flexible assortment policy store such as the discount stores where there are special sales, out-of-season items, closed-out and discontinued items, and surplus stocks of well-known brands.

Present a profile of the different types of customers who patronize the following different types of stores.

1. Specialty Store (exclusive items): Helzbergs Jewelers, Lane Bryant, Health Food Stores, Sporting Goods Stores

2. Variety Store (hardware, supermarkets): Kresge, Safeway, True Value Hardware

3. Department Store (large category of items and customer service): Macy's, Sears, J. C. Penney, Gimbels

4. Discount Store (wide variety and low overhead; cash and carry): Woolco, K Mart, Venture

BUYING AND PRICING

ASSIGNMENT SHEET 1.02

Customer Analysis Key

Answers to the problems will be left to the teacher's discretion. However, below are some possible suggestions to consider in evaluating this assignment.

1. a. Visited by the newly rich, self-made individual, upper class, old families, and business and professional people
   b. Patronized by people who have a desire for recognition in original items or "one-of-a-kind" products (a woman does not want to walk down the street or go to a party and meet someone else with the same dress on), special colors and sizes, and status symbols
   c. Supported by high income consumers who will accept no substitutions, do not mind the inconvenience of reaching the store or paying for parking, value pride of possessions and reputation of the store
   d. Supported by steady, recognized customers who receive personal, speedy service and favors and polite treatment
   e. Endorsed by individuals who like privacy and prestige

2. a. Visited by do-it-yourselfers--carpentry, car repair, plumbing, floor coverings, etc.--who want good value and reliability of adequate stock
   b. Supported by skilled wage earners, clerical workers, and small salaried people who need counseling, guidance, and helpful service
   c. Supported by satisfied, repeat buyers who like demonstrations, dependability of sales personnel and products, novelty and unusual items or gifts, particular brands, bargains and "free" merchandise
   d. Patronized by the self-employed--contractors, builders, plumbers--who need medium priced, good quality merchandise
   e. Endorsed by emotional and rational buyers who often buy early in the season for distinction

3. a. Patronized by practically every class of people from middle income suburbanites to rural people who want particular brands, variation in style and design at a medium price, good to above average quality merchandise, and some customer services such as delivery, credit, wrapping, free parking, cash discounts
   b. Supported by working wives and mothers who shop in evenings and with small children who need strollers, shopping carts, and patient sales personnel
   c. Endorsed by the thrifty, ultraconservative, blue-collar workers who want a wide assortment of goods, comparison

shopping, adequate stock, accurate and adequate information on products, demonstrations on products, service after sales, and guarantees and warranties

d. Visited by satisfied, repeat buyers who get polite, fair treatment

4. a. Patronized by low income, large families with little education who do not rely on cleanliness, neatness, or accessibility of stock and do not need window displays or interior displays

b. Visited by individuals who do not mind self-service, use rational buying motives, and pay cash

c. Supported by government employees, unskilled workers who must spend income on necessities, and welfare recipients who buy late in the season for economy

d. Visited by people who want no sales pressure tactics and lower quality merchandise at lower prices due to low overhead, labor, advertising, display costs, etc.

ASSIGNMENT SHEET 1.03

Successful Businesses

Directions: Supply the following listings.

1. List five types of businesses that can usually operate successfully in a suburban shopping center.

   a.

   b.

   c.

   d.

   e.

2. List five types of businesses that can usually operate successfully downtown in the center of a city.

   a.

   b.

   c.

   d.

   e.

3. List five types of businesses that can usually operate successfully in rural areas.

   a.

   b.

   c.

   d.

   e.

ASSIGNMENT SHEET 1.03

Successful Businesses Key

Answers to the questions will be left to the teacher's discretion. However, below are some examples to assist you in evaluating this assignment.

1. a. grocery
   b. personal attire
   c. varsity store
   d. specialty shops
   e. drugstores
   f. shoe store
   g. beauty shop
   h. lunch counter

2. a. department store
   b. exclusive merchandise shops
   c. wholesale firms
   d. supply houses
   e. banks
   f. factories
   g. hotel
   h. cafeteria

3. a. general store
   b. farm machinery sales and repair
   c. automotive sales and repair
   d. grocery
   e. service stations
   f. furniture
   g. produce buyer
   h. grain buyer
   i. feed store

Sources of Market Information

Internal	External
Past Sales	Vendors
Want Slips	Trade Publications
Comparison Shopping	Resident Buying Offices
Customer Surveys	Trade Shows

What type of source does the firm for which you work use to gather marketing information?

What and How Much Is Enough?

(1) Sales last month were high in men's short sleeve blue shirts, but many customer's also asked for green . . .

(2) I wonder if Sam's Shirt Shop carries green shirts? The Research Shirt Company said that they should sell well this season . . .

(3) As a matter of fact, Mr. Green, the sales representative, told me that green shirts would sell well this season . . .

(4) Shirt Magazine also said green would be a popular color . . .

(5) I need to check nationwide and see how green shirts are selling. If they are as good as I think, I can order them at the Trade Show next week!

(6) I sure hope my sources of marketing information are thorough enough !!!

TM-1.02

BUYING AND PRICING

LESSON PLAN #2

Time for Lesson: One 55-minute class period

Objectives: After completion of this lesson, students should be able to:

16.04 Examine the way the store coordinates the merchandise throughout the store before deciding what to buy.

16.05 Study the coming promotional activities and sales plans that can be used to set up a buying schedule.

Resources:

1. Information Sheet 2.01: Planning Stock Composition
2. Information Sheet 2.02: The Merchandise Plan
3. Assignment Sheet 2.01: Developing The Basic Stock List
4. Assignment Sheet 2.01: Developing The Basic Stock List Key
5. Assignment Sheet 2.02: Miller's Shoe Store
6. Assignment Sheet 2.02: Miller's Shoe Store Key
7. Transparency Master 2.01: Price Lines
8. Transparency Master 2.02: Merchandise Plan
9. Transparency Master 2.03: Basic Stock Plan

Teacher Activities:

1. Distribute Information Sheets 2.01 and 2.02 for students to study and discuss.
2. Display and explain Transparency Masters 2.01, 2.02, and 2.03.
3. Distribute Assignment Sheet 2.01 for students to complete for teacher evaluation and review.
4. Distribute Assignment Sheet 2.02 for students to complete by next class period.

Student Activities:

1. Study and discuss Information Sheets 2.01 and 2.02 with the use of Transparency Masters 2.01, 2.02, and 2.03.
2. Complete and review Assignment Sheet 2.01.
3. Complete Assignment Sheet 2.02 by next class period.

BUYING AND PRICING

INFORMATION SHEET 2.01

Planning Stock Composition

When planning the stock composition, the merchant wants to provide an assortment of merchandise that is best suited to the customers' demands. The merchant also wants an assortment of merchandise that is as good as or better than merchandise of the competition. The merchant who presents such a merchandise assortment is likely to be successful.

Breadth and Depth of Merchandise Offerings

Merchandise breadth refers to the number of classifications or categories of products a store may carry. Thus, a department store carries a wide breadth or assortment of goods including housewares, apparel, bakery items, hardware, sporting goods, and gift items. A specialty store may provide a much narrower assortment such as only shoes in a shoe store, men's shirts in a shirt shop, or exclusively cards and gifts in a gift shop.

Depth, on the other hand, refers to the quantity of offerings, including such categories as prices, brands, styles, colors, sizes, etc., of a single product line. For example, a shoe store may carry a depth of twenty styles of tennis shoes, in five different colors, thirty different sizes, ten different prices, and three different brands. In a broad depth of merchandise a customer has a greater chance of satisfying current wants and needs.

Stock Balance

Stock balance refers to the overall equilibrium of goods that is reasonably inviting to customers' wants and needs. This is the key to successful retailing. A stock balance of breadth and depth should be achieved in the entire store's merchandise categories.

A stock balance is maintained by the following ingredients:

1. A variety of goods adequate to meet most demands of the store's customers;
2. A quantity and variety of stock adequate to minimize lost sales; and
3. An appropriate working capital inventory investment.

An important consideration of the retailer is the amount of investment he/she can put into a specific department to advance profits. Often the retailer will have to compromise on the breadth and depth of merchandise to carry for a balance of stock and profitable income. What other items must the retailer take into consideration in planning the merchandise assortment? The type of customer, quality of merchandise, exclusiveness of offerings, fashion or taste appeal, timing, and price are the major considerations.

Buying Policies

From studies of customer characteristics, the merchant knows the product lines which might be profitably offered for sale. Also something is known about the quality and price of merchandise which will appeal to consumers in the area. To make sure that the merchandise bought will be in line with the wants of the customers, the merchant establishes policies covering the store's buying practices.

Quality of merchandise. After studying customers' demands for quality, the merchant must establish policies covering this important factor. Questions on quality must be answered. Are the customers primarily interested in price, or are the qualities of construction and materials the most important considerations? The merchant must buy his/her merchandise accordingly, i.e., merchandise which is constructed from the best materials available or a serviceable quality at the lowest possible price.

Exclusiveness. The exclusiveness of a store's merchandise is closely related to quality. Exclusiveness means carrying items or brands not available in other stores in the trading area. Especially in fashion merchandise, many customers prefer to shop at stores which have reputations for exclusiveness. These shoppers want to feel sure they are the only ones in the trading area who own a particular article in a particular color.

If the merchant ascertains the customers demand exclusiveness, a policy must be made which tells the buyers to purchase merchandise that can be sold by no other store in the trading area. The policy also specifies that only one item of a particular style is to be bought. To assure exclusiveness, some merchants buy by specification and sell under a private brand name.

Fashion or taste. The term fashion refers to the position of the style (beginning, middle, or end) in the fashion cycle. Customers differ greatly in their degree of fashion consciousness.

Some demand a style which is in the first phase of the fashion cycle. Others are not interested in an item until it has been accepted by the majority of the people. The merchant must determine how the majority of the customers feel about fashion. Then a suitable buying policy may be adopted.

Price lining. Price lining is the development of an assortment of merchandise around one or more lines that have the quality and prices desired by a majority of the customers (Transparency Master 2.01). The purpose of price lines is to assure the retailer that the merchandise on hand is priced within the range of the majority of the customers. Price lines are based on a careful study of the store's past records, the quantitative and qualitative characteristics of the customer, and the offerings of the competition. The retailer needs a policy covering price lines so that the price range suitable to the customers is maintained in all departments.

The specific price lines which the merchant establishes within his/her price lining system will change because prices change. In a period of rising prices, the total system moves up because the price of a given quality of merchandise increases. Even so, the merchant must avoid making continual small changes in the price line and attempt to establish price lines which will remain constant for a reasonable length of time.

Retailing--Challenge and Opportunity, 2nd Edition, Hartley, Houghton Mifflin Co., p. 269.

Selecting and Buying Merchandise, Samson and Palmer, Southwestern Publishing Co., pp. 38-40.

INFORMATION SHEET 2.02

The Merchandise Plan

The retailer wants to invest money in merchandise which will provide a high return on investment. Therefore, the plan by which the purchases are made is a very important tool. The merchandise plan is a plan or budget of a store or department which describes the planned sales, inventory, purchases, expenses, and markup for a certain period of time (usually six months).

The purpose of the merchandise plan is to help the buyer to invest in merchandise according to the demand which will exist at the time the merchandise is offered for sale. The merchant uses all the data accumulated about the customers, the store, and the competition in developing the merchandise plan.

Top-down method. Two methods of developing the merchandise plan are used. One is the top-down method. The top-level store management estimates what total sales should be for the coming period. Then expected sales are planned for each department according to its past contribution to the sales of the total store.

Assume that the planned sales of Jones Department Store for the coming six months are $575,000. In the past, the ladies' wear department has accounted for 23 percent of Jones' total sales. Therefore, the merchandise plan for the ladies' wear department has a planned sales figure of 23 percent of Jones' planned sales of $575,000 or $132,250.

Bottom-up method. The other method of developing the merchandise plan is the bottom-up method. The planned sales for the store are determined by adding together the planned sales figures which are developed by each department. Planned sales for each department are determined by a study of past sales and by plans for improvement in merchandise and promotion. Planned sales figures for all departments are added together to arrive at the planned sales figure for the store. Many large retailers use both the top-down and bottom-up methods; then arrive at the final planned sales figure for the store and each department through a process of discussion and compromise.

After the buyer has determined the planned sales figure for the season, predictions must be made as to when these sales will be made and how much inventory must be on hand. These decisions lead to the formation of the actual merchandise plan.

The merchandise plan enables the buyer to determine how much merchandise should be purchased every month during the period of the plan. The planned purchase figure takes into consideration the planned inventory and planned sales. Taking figures from Jones' subteen fashion merchandise plan (Transparency Master 2.01), planned purchases for the month of October are calculated as follows:

Planned beginning of month inventory for November	$23,750
Planned sales for October (total merchandise needed)	+ 5,850
Total planned inventory	$29,600

Planned beginning of month inventory for October	-19,000
Planned purchases for October	$10,600

Open-to-buy. The planned purchases figure does not take into account goods which are already on order. When goods on order are subtracted from planned purchases, the resulting figure is the open-to-buy figure. If the buyer for Jones' subteen fashion department had made orders for delivery in October in the amount of $7,300, the amount to be ordered for October delivery to complete planned purchases would be $3,300 ($10,600 - $7,300). Thus, $3,300 is the open-to-buy figure for October.

Some classes of merchandise do not vary much from season to season in appearance, construction, or price. This kind of merchandise is known as basic stock or staples. The basic stock plan is a major tool for most retailers; however, their merchandise plan is organized. Examples of basic stock are socks, underwear, work clothing, lingerie, stockings, low-priced sportswear, and many items sold in hardware stores, drugstores, and supermarkets.

Staple stock replenishment. The method used to determine the quantity of basic stock to purchase is called staple stock replenishment. The purpose of the staple stock replenishment is to determine the quantity to buy, or the amount of merchandise a retailer must have on hand or on order at any reorder point in order to have a sufficient amount of merchandise available during the period.

The formula for staple stock replenishment is:

Quantity to Buy = Estimated Sales + Desired Stock EOM - (Goods on Hand + Goods on Order)

For example: Given the following information, what would May requirements be on April 1?

Estimated Sales: Brand "W" tennis rackets

April - May 14 dozen

Goods on hand April 1	7 dozen
Goods on order April 1	10 dozen
Desired stock May 30	20 dozen

The May requirements would be calculated as follows:

14 + 20 - (7 + 10) = 17 dozen to buy April 1.

Terms

Rate of sale. The merchant must know the weekly unit sales of each item, based on past experience.

Reorder period. The reorder period is the amount of time between orders for the purchase of certain goods. The length of the reorder period is based on the unit volume of sales and the length of time required for delivery of the merchandise to the store.

The reorder period is planned to keep restocking and inventory costs at a minimum. The merchant may need to order certain types of merchandise only every six months. However, this may be costly in terms of inventory storage. The merchant must weigh the inventory storage costs against the delivery costs which would result from more frequent ordering.

Delivery period. The delivery period is the time which elapses between the time the order is placed and the time the merchandise is in stock and ready for sale. The delivery period includes the time involved in receiving and marking the merchandise as well as the time needed to transport the merchandise to the store.

Reserve. The reserve is that amount of merchandise necessary to take care of unexpected increases in sales. Sales less than anticipated are not of great concern because this fluctuation may be taken care of at the next ordering point. If sales greater than anticipated cause an out-of-stock condition, lost sales and lost profits for the store result. Therefore, it is important that a reserve be kept.

Maximum. The maximum is the amount of merchandise which must be on hand or on order at any reordering point. The stock on hand and on order must be sufficient to provide merchandise for sale and a reserve during the reorder period. The stock on hand never reaches the maximum because sales will occur during the time it takes for the new order to be received. The formula for determining the maximum follows:

When:
M = Maximum
S = Sales Volume Per Week
RP = Reorder Period
DP = Delivery Period
R = Reserve

The formula is:

$$S(RP + DP) + R = M$$

For example, the owner of Bill's Hardware Store expects weekly sales of 20 pliers of a certain brand. The merchant reorders every two weeks and the delivery period for this brand is one week. A reserve of 10 pliers is sufficient to account for sales fluctuations. The maximum is determined as follows:

$$\text{Sales}(RP + DP) + \text{Reserve} = \text{Maximum}$$

$$20(2 + 1) + 10 = 70$$

The owner of Bill's should have on hand and on order a quantity of 70 pliers (Transparency Master 2.03).

Basic stock plan. In using the basic stock plan, the merchant develops a chart called the basic stock list. All the information needed in the basic stock plan appears on this list. The basic stock list provides a description of the item, the retail price, the cost to the merchant, the maximum, weekly unit sales, minimum reorder quantity (called the pack), the reorder period, the delivery period, inventory in stock, and the quantity which must be ordered to maintain the maximum.

Use of basic stock lists simplifies the work of the basic stock plan. Most buying of staple items in food stores, hardware stores, and chain department stores is done with some form of the basic stock list.

Using the basic stock plan, the open-to-buy (OTB) calculation can be made with a simplified version of the formula for finding the maximum. When the maximum has been set for an item, the following variables are used in the open-to-buy formula.

M = Maximum Stock Level
SOH = Stock On Hand
MO = Merchandise On Order

The open-to-buy formula is:

$$OTB = M - (SOH + MO)$$

For example, determine OTB for a shoe store with the following figures:

Maximum stock level	$112,000
Actual stock on hand August 1	38,000
Goods on order	26,000

Solution:

OTB = \$112,000 - (\$38,000 + \$26,000)
OTB = \$112,000 - \$64,000
OTB = \$48,000

ASSIGNMENT SHEET 2.01

Developing The Basic Stock List

One of the important tools which the merchant has available for his/her use in buying staple stock is the basic stock list. This tool helps the buyer decide how much merchandise he/she should order each reorder period. In order to use the basic stock list, the merchant must have the following information:

1. Sales (S). Weekly sales of the item.
2. Reorder period (RP). The length of time in weeks between inventories of the item.
3. Delivery period (DP). The length of time that elapses between the time the order is executed and the time the merchandise is in stock ready for sale.
4. Reserve (R). The amount of merchandise necessary to take care of fluctuations in sales above the normal weekly sales.
5. Maximum (M). The amount of merchandise which must be on hand or on order at any reordering point.

All of the needed information with the exception of the reserve and the maximum are obtainable from store records. The buyer may obtain the reserve for any given amount of weekly sales from charts published by manufacturers and textbook companies.

The buyer uses the following formula to determine the proper maximum for staple merchandise:

$$M = S(RP + DP) + R$$

Completion of the following project will provide you with the ability to determine the maximum for use in a basic stock list.

Assume that you are a buyer for men's clothing and you want to develop a basic stock list for your $11.50 line of men's jogging shorts. Utilizing the following information, arrive at the maximum for each of the following sizes. Assume further that your reorder period will be two weeks and your delivery period will be three weeks. Use the chart on the following page to record your answers.

Size	Weekly Sales	Reserve
Small	18	10
Medium	35	14
Large	25	10
Extra Large	19	10

Basic Stock List

Jones Department Store	BASIC STOCK						May	June	July	August	Sept	Oct
ITEM	RETAIL PRICE / COST	MAXIMUM	WEEKLY UNIT SALES	PACK	REORDER PERIOD (WEEKS)	DELIVERY PERIOD (WEEKS)	ON HAND / ORDER	ON HAND / ORDER	ON HAND / ORDER	ON HAND / ORDER	ON HAND ORDER	ON HAND ORDER

Basic Stock List Key

Jones Department Store			BASIC STOCK				May	June	July	August	Sept	Oct
ITEM	RETAIL PRICE COST	MAXIMUM	WEEKLY UNIT SALES	PACK	REORDER PERIOD (WEEK)	DELIVERY PERIOD (WEEK)	ON HAND ORDER	ON HAND ORDER	ON HAND ORDER	ON HAND ORDER	ON HAND ORDER	ON HAND ORDER
Jogging Shorts	11.50	100	18		2	3						
Jogging Shorts	11.50	189	35		2	3						
Jogging Shorts	11.50	135	25		2	3						
Jogging Shorts	11.50	105	19		2	3						

M = 18(2 + 3) +10
M = 90 + 10
M = 100

M = 35(2 + 3) + 14
M = 175 + 14
M = 189

M = 25(2 + 3) + 10
M = 125 + 10
M = 135

M = 19(2 + 3) + 10
M = 95 + 10
M = 105

BUYING AND PRICING

ASSIGNMENT SHEET 2.02

Miller's Shoe Store

Directions: Given the following information about Miller's Shoe Store, calculate the following problems. Show your work.

1. Find the May requirements for staple stock replenishment. Estimated sales of one brand of tennis shoes is 10 dozen from April 1 to May 30. The desired stock at the EOM (May 30) is 20 dozen. Goods on hand are 5 dozen and goods on order are 10 dozen as of April 1. How many dozen should be purchased April 1?

2. If Miller's Shoe store has an expected weekly sales of 150 pairs of shoes and the store wants to retain a reserve of 25 pairs of shoes, find the maximum on hand or on order when reorders are made every 3 weeks and delivery is every week.

3. If the shoe store maintains a maximum stock level of $92,000, the actual stock on hand is $28,000, and the goods on order are $20,000, what is the amount OTB?

BUYING AND PRICING

ASSIGNMENT SHEET 2.02

Miller's Shoe Store Key

1. Staple Stock Replenishment = Estimated Sales + Desired Stock EOM - (Goods on Hand + Goods on Order)

   10 + 20 - (5 + 10) = Staple Stock Replenishment

   10 + 20 - 15 = 15 dozen to buy April 1

2. M = S(RP + DP) + R

   150(3 + 1) + 25 = 625

3. OTB = M - (SOH + MO)
   OTB = $92,000 - ($28,000 + $20,000)
   OTB = $92,000 - $48,000
   OTB = $44,000

TM-2.01

Price Lines

High

Price Line

A high quality, more expensive item for average customers. The usual item for high income customers.

Medium

Price Line

An expensive article for low income customers. The usual article for average customers. An inexpensive article for high income customers.

Low

Price Line

The usual article for low income customers. A less expensive article for average customers.

Price Lines

TM-2.02

Merchandise Plan

Jones Department Store

Dept. **Subteen Fashions**

		Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Total	%Increase
Sales	**Last Year**	$6,225	6,837	5,349	6,480	8,547	4,570	$38,008	
	Plan	$6,850	7,500	5,850	7,100	9,375	4,900	$41,575	
	Actual	$6,430	7,488						
Starting Inventory	**Last Year**	$15,750	21,000	18,500	23,050	22,000	15,500	$115,800	
	Plan	$16,500	20,750	19,000	23,750	22,850	16,000	$118,850	
	Actual	$16,150	20,540						
Mark-downs	**Last Year**	$270	330	236	274	330	174	$1,514	
	Plan	$252	300	272	320	387	225	$1,756	
	Actual	$115	137						
Purchases	**Last Year**	$10,000	4,350	10,000	5,500	2,000	2,100	$33,950	
	Plan	$11,100	5,750	10,600	6,200	4,525	4,900	$43,075	
	Actual	$10,950	5,675						
Markup	**Last Year**	37.8%	38.1	37.5	38.2	38.3	37.2	37.8%	
	Plan	38%	38	38	38	38	38	38%	
	Actual	37.9%	38.1						

Merchandise plans are drawn for various periods of time, usually six months. Included are planned sales, inventories, markdowns, purchases, and markups.

Basic Stock List

Bill's Hardware Store			BASIC STOCK				May	June	July	August	Sept	Oct
ITEM	RETAIL PRICE / COST	MAXI-MUM	WEEKLY UNIT SALES	PACK	REORDER PERIOD (WEEKS)	DELIVERY PERIOD (WEEKS)	ON HAND / ORDER	ON HAND / ORDER	ON HAND / ORDER	ON HAND / ORDER	ON HAND / ORDER	ON HAND / ORDER
Pliers #748	1.25 / .75	70	20	6	2	1	42 / 30					

BUYING AND PRICING

LESSON PLAN #3

Time for Lesson: One 55-minute class period

Objectives: After completion of this lesson, students should be able to:

16.06 Suggest some basic fundamentals that can be used to determine when and how much to buy, regardless of the size of the store or the type of merchandise.

Resources:

1. Information Sheet 3.01: Elements Determining The Buyer's Policy For Merchandise
2. Assignment Sheet 3.01: Determining Merchandise Turnover
3. Assignment Sheet 3.01: Determining Merchandise Turnover Key
4. Assignment Sheet 3.02: Duties Of A Buyer
5. Assignment Sheet 3.02: Duties Of A Buyer Key

Teacher Activities:

1. Distribute Information Sheet 3.01 for students to study and discuss.
2. Distribute Assignment Sheet 3.01 for students to complete for teacher evaluation and review.
3. Distribute Assignment Sheet 3.02 for students to complete for teacher evaluation and review.
4. Give students a few days to complete Assignment Sheet 3.02.

Student Activities:

1. Study Information Sheet 3.01.
2. Complete Assignment Sheet 3.01.
3. Complete Assignment Sheet 3.02 by time specified by teacher.

BUYING AND PRICING

INFORMATION SHEET 3.01

Elements Determining The Buyer's Policy For Merchandise

The buyer starts with a merchandise plan. This is based on consumer wants and needs. The buyer knows what types of goods are wanted ard how much can be spent to purchase them. Now the actual buying process is ready to start--the buyer is ready to select specific items and write merchandise orders.

What Is the Right Quantity of Merchandise to Buy?

The proper quantity to be purchased depends on the following elements.

Expected sales. Expected sales volume is accomplished by retailers by buying in relation to the current sales. Current sales may be 10 percent higher than for the same period last year. Sales for the month ahead average about eight percent of the annual sales for the past five years. Barring unusual circumstances, the sales for the month ahead will be approximately eight percent of the annual sales and approximately ten percent higher than last year.

Rate of stock turnover. Rate of stock turnover refers to how many times the stock has been sold and restocked during a given period of time (usually one year). The calculation for this turnover is as follows:

$$\text{Stockturns} = \frac{\text{Retail Sales (for the period)}}{\text{Average Stock at Retail Price (for the period)}}$$

If Capron's Clothing Store had sales of $150,000 during the year and the average inventory (calculated at selling price) was $40,000 for the year, the turnover would be 3.75.

$$\frac{\$150,000}{\$\ 40,000} = 3.75 \text{ turns}$$

It is important to note that turnover can be calculated at cost price or units sold as well as selling price. However, the most commonly used method is to use the selling price. If a department stocks an average of ten units of an item and annual sales are 100 units, the annual stock turnover is ten. The objective of sound merchandising is to keep working capital working--by operating with a minimum stock.

Nearness of buying source. Nearness of buying source, of course, helps the buyer determine how much to buy. If the manufacturer, producer, or jobber is just 100 miles away, that is one thing; but, if he/she is 2,000 miles away, larger stocks will have to be maintained.

Length of time merchandise will be in style. How long will the merchandise be in style? Is it a novelty? Is it perishable? Is it seasonal? If any of these questions present problems, the buyer will stock and sell the merchandise carefully.

Trend in supply and price. Trends in supply and price help the buyer to purchase merchandise. If the supply of an item is doubtful and the item is marketably good, the buyer will purchase a larger quantity. But, if there are promises of steady or increasing supply of the item, the buyer will purchase less at one time and reorder more often.

Credit. Credit refers to the manufacturer's or jobber's credit policy, as some companies are very strict and others are too lenient. The buyer needs to know the policies of the company with which he/she is dealing. The relationship of the seller's credit policy to the buyer should determine the quantity of merchandise purchased.

Service requirements. Service requirements help the buyer decide how much to purchase to avoid losing sales from being "out-of-stock". Oftentimes, it is necessary for stores to stock parts and goods in order to give service to customers who need it. Convenience of the customer must always be kept in mind.

Display requirements. Display requirements refer to the amount of merchandise available for display. It is said "nothing sells merchandise like merchandise"; therefore, the store must have an adequate quantity of merchandise to display to attract customers.

Attraction to the customer. Attraction to the customer means the right quantity for the most effective economic gain for the consumer. Examples of this are:

Hoisery--$1.95 per pair or 3 pairs for $4.50

Dishes--starter set for $6.95 or service for 12 for $17.95

Chocolates--$2.19 per pound or 2 pounds for $4.10

Potatoes--11¢ per pound or 5 pounds for 43¢

Consideration by the buyer of all these points helps the buyer determine the right quantity of merchandise to purchase. The right quantity to buy is that quantity which assures the most effective selling with the least risk and the greatest profitable use of working capital or money.

Stockkeeping, University of Texas, Distributive Education Division, Austin, Texas, 1963, pp. 10-12.

BUYING AND PRICING

ASSIGNMENT SHEET 3.01

Determining Merchandise Turnover

__Directions__: Calculate the following rates of stock turnover.

1. Find the number of stock turns for Begley's Bridal Business that had sales of $100,000 for the year and the following monthly inventories:

January 1	$10,000	July 1	$ 9,000
February 1	$12,000	August 1	$10,000
March 1	$14,000	September 1	$11,000
April 1	$15,000	October 1	$12,000
May 1	$10,000	November 1	$17,000
June 1	$ 8,000	December 1	$20,000
		December 31	$ 8,000

2. Determine the rate of stock turnover for Marquardt's Mopeds. Annual sales totaled 180 units and an average of 30 mopeds are stocked.

3. Woody's Kayak Company totaled cost sales of $78,000 for the past year. Average cost of monthly inventories for the year was $9,750. What was Woody's rate of turnover?

ASSIGNMENT SHEET 3.01

Determining Merchandise Turnover Key

1. $10,000 + $12,000 + $14,000 + $15,000, etc., = $156,000
Add all inventories together to show how derived $156,000.

$$\frac{\$100{,}000}{\$156{,}000} \div 13 = \frac{100{,}000}{12{,}000} = 8.33$$

2. $$\frac{180 \text{ units}}{30 \text{ units}} = 6$$

3. $$\frac{\$78{,}000}{\$\ 9{,}750} = 8$$

ASSIGNMENT SHEET 3.02

Duties Of A Buyer

Interview two buyers--one buyer from a small store and one buyer from a large store. Your instructor may help by identifying persons you could contact. Make an appointment with each buyer, telling him/her the purpose of the interview and approximately how much time it will take. You may wish to join with one or two of your classmates in this activity. As a result of each interview, you should have a list of the duties performed by each type of buyer.

Interview with Buyer from Small Store

Buyer's Name ______________________ Store ____________________

Merchandise Lines ______________________ Date ____________

List of Buyer's Duties:

1. ____
2. ____
3. ____
4. ____
5. ____
6. ____
7. ____
8. ____

Interview with Buyer from Large Store

Buyer's Name ______________________ Store ____________________

Merchandise Lines ____________________________ Date ____________

List of Buyer's Duties:

1. ____
2. ____
3. ____
4. ____
5. ____
6. ____
7. ____
8. ____
9. ____
10. ____

Describe the major differences in duties of the buyer from the small store and duties of the buyer from the large store.

____

____

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BUYING AND PRICING

ASSIGNMENT SHEET 3.02

Duties Of A Buyer Key

Quality and accuracy of the description of the buyers' duties will be left to the teacher's discretion dependent upon community resources. However, below are a few possibilities for student responses.

1. Small store buyer duties
   a. Determine past sales for an estimate of expected sales
   b. Determine turnover rate in the past
   c. Weigh delivery costs versus quantity of stock
   d. Consider current trends
   e. Know credit policies of manufacturer
   f. Balance variety and amount of stock on hand for least risk and most profit
2. Large store buyer duties
   a. Approximate expected sales
   b. Determine turnover rates
   c. Know manufacturer's credit policies
   d. Estimate salability of fashions and trends
   e. Determine quantity and quality of merchandise to buy
   f. Retain staple stock goods
   g. Determine displays of merchandise
3. Differences in buying will be determined by size, location, type of store, and volume of business.

BUYING AND PRICING

LESSON PLAN #4

Time for Lesson: One 55-minute class period

Objective: After completion of this lesson, students should be able to:

16.07 List the different methods available for purchasing for a small business.

Resources:

1. Information Sheet 4.01: Establishing Market Contacts--Small And Convenience Goods Stores
2. Assignment Sheet 4.01: Rating Suppliers
3. Assignment Sheet 4.01: Rating Suppliers Key
4. Assignment Sheet 4.02: Establishing Market Contacts--Small Stores
5. Assignment Sheet 4.02: Establishing Market Contacts--Small Stores Key

Teacher Activities:

1. Distribute Information Sheet 4.01 for students to study and discuss.
2. Distribute Assignment Sheets 4.01 and 4.02 for students to complete for teacher evaluation and review. Set a specific due date.

Student Activities:

1. Study and discuss Information Sheet 4.01.
2. Complete Assignment Sheets 4.01 and 4.02 for class discussion on due date.

BUYING AND PRICING

INFORMATION SHEET 4.01

Establishing Market Contacts--
Small And Convenience Goods Sto[illegible]

Deciding what to buy is only one phase of obtaining merchandise. Decisions on where to buy can be equally important. Merchants study market offerings by visiting wholesale centers, studying trade papers, subscribing to trade services, and participating in market representation plans. The trade papers and trade services are especially important to the merchant, because--in addition to telling which products are being offered for sale in the market--they tell which manufacturers and wholesalers are offering the products and where these suppliers are located.

The study of trade papers and trade reports begins the process of establishing market contacts to procure goods for resale. Each trade paper in a particular merchandise field carries many advertisements of manufacturers and wholesalers as well as news stories about manufacturers who are introducing a new product or who are using newsworthy promotional devices. There are also trade directories in each field that every merchant should keep on hand for quick reference. These directories list the names, addresses, and phone numbers of most of the manufacturers and wholesalers in that particular field. The classified section of a telephone directory provides similar information and is useful when a buyer is seeking to make contact with new resources.

Once a buyer has studied the market offerings, planned what to buy, and located the resources, the next step is to make contact with the resources. For the small independent store or the store handling convenience goods, the two most important means of making contact with the market are through sales representatives who call at the store and through a cooperative buying arrangement.

Sales Representatives

Wholesalers and manufacturers whose lines contain a wide variety of items send sales representatives to call on small stores. Depending on the merchandise lines, sales representatives visit stores on a variety of schedules. Some manufacturers supplement or even replace sales representatives with direct-mail advertising. The merchant may either order samples without a visit from a representative, or he/she may ask the manufacturer to send a sales representative to show and explain the product.

Sales representatives can provide information on a line of products, provide information on a merchandising strategy, or provide even more comprehensive merchandising service such as the display and rotation of stock.

Merchandising services. Sales representatives of staple goods who call on the retailer may ask for a certain amount of shelf or display space. If so, the sales representative may assume the responsibility for arrangement, display, inventory, and reordering of the merchandise. With some merchandise, such as perishable goods or items with high turnover, the sales representative may call daily. In lines such as baked goods and produce, selling and delivery operations are combined. The supplier's delivery-salesperson checks the store's stocks and replaces and replenishes as needed.

Many supermarkets often buy their nonfood items from rack jobbers (wholesalers who agree to merchandise a rack or counter of their line in the supermarket). The rack jobber visits the store every few days, replenishes the items on the rack, removes slow selling items and replaces them with other items, and makes sure the displays are in order. This enables the supermarket manager to handle food items, yet obtain considerably greater sales volume from nonfood items. There is more price competition in food items and the merchant must keep food prices as low as possible, but he/she can set a higher retail price on nonfood items and can make a greater profit.

Specialized stockkeeping representatives. Some manufacturers feel the time of their sales representatives is too valuable to be devoted to stockkeeping in the supermarkets and discount stores that carry their lines. They do recognize that they cannot depend upon store managers to keep their stocks in the stores complete and properly arranged. With thousands of stockkeeping units to handle, many in direct competition with one another, the manager may feel that there is little loss to the store if it is out of stock of a particular manufacturer's goods. But the loss is very important to the manufacturer.

Therefore, some distributors now hire route personnel, often young people, who make the rounds in a limited trading area of all the stores that handle their employer's goods. They make sure that the space assigned to their products is full and that the goods are properly arranged. If the stock is depleted, they check on orders and requisitions for replacements. This way the sales representatives for the distributor are relieved of a routine function and can devote their time to presenting new products and special deals and arranging for adequate shelf and display space.

In order to find time to see sales representatives who have new merchandise to present or who are other than route personnel, it is wise for the merchant to set aside regular days and hours. Otherwise, the merchant may be constantly interrupted in the performance of other duties. Exceptions may have to be made for out-of-town salespeople who have travel schedules to meet. Merchants should request out-of-town salespeople to make advance appointments by phone or letter.

The retailer must be selective in granting visiting salespersons part of his/her valuable time. If the small retailer gives these people all the time they want, several hours each week may be lost. The retailer should screen those salespersons representing merchandise areas in which no interest is present. Repeat calls should be reserved only for those sales representatives who represent appropriate merchandise lines, who have new information to provide, and who are truly interested in the retailer's business.

By planning for each visit by a sales representative, the retailer can get the most from the contact. In addition to information on merchandise, the sales representative should provide promotional ideas, ways of displaying products, information on colors and styles that are moving well, and a variety of other merchandising ideas that will be helpful to the retailer.

Cooperative Buying Arrangements

For many small and convenience goods stores, the most practical method of making market contacts is through a cooperative buying arrangement. This may be an arrangement with a wholesaler, with a chain store organization as an agency store, or even with the manufacturer of a line in which the store has decided to specialize. In the food and drug field, a small store may also invest in a wholesale warehouse which is owned cooperatively by a group of noncompeting stores and which acts as the buying agent for these stores.

Probably the most widely used of the cooperative buying arrangements is the voluntary chain where a contract wholesaler agrees to act as the buying and servicing agent for a group of stores. By serving a number of stores at one time, the contract wholesaler can reduce the selling expense and buy large quantities of goods for which there is an assured market. This way goods may be provided at as low a price to the independent members as it is to the units of chains. The contract wholesaler also provides the member stores with managerial and promotional assistance, just as the chains do.

Rating the Suppliers

One of the most important considerations for the merchant or buyer is to be sure that reliable suppliers are selected. An unreliable supplier could cause havoc, confusion, and disaster for the merchant. Many merchants and buyers research suppliers before making buying decisions. How can this be done? Usually, some sort of grid or rating scale can be developed by the merchant or buyer to assist in determining reliable suppliers.

When developing a rating scale for suppliers, a systematic or objective type of rating scale is advised. Often, the small merchant may rate suppliers subjectively on certain instances of good or poor service which he/she remembers most. But, when possible, the systematic rating scale should have first priority.

The systematic rating scale can be developed by the merchant or buyer to assist in a better buying job for the store or department. Those vendors which rate poorly may be cancelled from the list or may be seriously prodded to obtain better service. Ratings of suppliers and vendors not only increase buying quality for the merchant or buyer but may also cause the suppliers to re-evaluate themselves if they want to be employed by certain merchants.

Retailing--Challenge and Opportunity, 2nd Edition, Hartley,
Houghton Mifflin Co., pp. 306-07.

Retail Merchandising, 8th Edition, Wingate and Samson, Southwestern
Publishing Co., Cincinnati, Ohio 45227 pp. 215-19.

BUYING AND PRICING

ASSIGNMENT SHEET 4.01

Rating Suppliers

Below is a possible suppliers' rating scale. Suppliers can be rated according to these various factors, but it is also important to remember that they can also be rated according to strengths and weaknesses. A supplier rating can be left open to be constructed by the merchant or buyer to fit his/her specific needs.

Factors	Poor	Fair	Good	Excellent
Average delivery time				
Proportion of damaged merchandise				
Number of customer complaints				
Percent of markdowns to total purchase				
Price of goods relative to quality				
Cooperation on sales, adjustments, special orders, etc.				

Questions:

1. List other factors on which one might rate suppliers.

2. How would you weigh the factors according to relative importance?

3. Do you think rating customer complaints is important? Why?

Optional Activity:

Check with the buyer or merchant of a local store and see if there is a supplier rating system. Bring it to class to compare it with other students' supplier rating systems. If the merchant doesn't have a special form, see if you and the merchant can develop one together for the store.

BUYING AND PRICING

ASSIGNMENT SHEET 4.01

Rating Suppliers Key

1. Other factors on which one may rate suppliers are exclusiveness of goods, supplies and training aids for personnel, advertising allowance policies, etc.

2. Important factors vary from store to store and even among different departments in a store depending on specific problems. For example, if deliveries have been off schedule for a period of time, rating the suppliers on delivery time would be essential.

3. Customer complaints regarding a certain type of goods may reflect a situation in which others were not aware and that should be corrected as soon as possible.

BUYING AND PRICING

ASSIGNMENT SHEET 4.02

Establishing Market Contacts--Small Stores

Sales representatives are important to small stores as a means of contacting resources. There are different types of sales representatives. These are determined by the merchandise and services desired by the retailer. Below are listed three retail stores and three types of sales representatives. In the space provided, name the kinds of merchandise the store might get from the representative and give reasons why the retailer would use each representative's service.

1. Neighborhood superette--Delivery-salesperson.
   a. Possible merchandise: ______________________________
   b. Retailer's reason(s) for using delivery-salesperson: ___
   ____
2. Hardware store--Rack jobber.
   a. Possible merchandise: ______________________________
   b. Retailer's reason(s) for using a rack jobber: ________
   ____
3. Variety store--Route person.
   a. Possible merchandise: ______________________________
   b. Retailer's reason(s) for using route person: ________
   ____
4. List five products that you might carry in a store of your choice. Using such sources as trade directories, trade papers, trade reports, and the classified directory of the telephone book, locate one manufacturer or wholesaler who handles each of these products. Write in the source column the name and complete address of the source of each product.

Product Source

a. ____________________ ______________________________
____
____

b. ____________________ ______________________________
____
____

c. ____________________ ______________________________
____
____

d. ____________________ ______________________________
____
____

e. ____________________ ______________________________
____
____

Retail Merchandising, 8th Edition, Study Guides and Projects, Samson and Lawyer, p. 37a.

BUYING AND PRICING

ASSIGNMENT SHEET 4.02

Establishing Market Contacts--Small Stores Key

Composition of the material will be left to the teacher's discretion according to the community. However, below are some possible suggestions.

1. a. Baked goods, dairy products, and snack foods

   b. Constant frequent replacement of stock

2. a. Nonfood items, craft supplies, auto parts, and tools

   b. Does promotional displays, replaces nonselling items

3. a. Snack foods, household supplies, and magazines

   b. Arranges and supplies a full stock at all times

4. a. Eye glasses - American Optical Company
   17 N. 14th
   Frantic, IL 60645

   b. Orthopedic shoes - Central Brace Company
   1106 E. Broadway
   Frantic, IL 60645

   c. Appliances and lighting - Philips and Company
   25 S. 6th
   Frantic, IL 60645

   d. Fireplaces and furnaces - Superior Supply Company
   1405 Sunset Avenue
   Frantic, IL 60645

   e. Portable heaters - McGraw-Edison
   1801 Hillside Blvd.
   Frantic, IL 60645

BUYING AND PRICING

LESSON PLAN #5

Time for Lesson: One 55-minute class period

Objective: After completion of this lesson, students should be able to:

16.08 List the different methods available for purchasing for a large business.

Resources:

1. Information Sheet 5.01: Establishing Market Contacts--Large And Shopping Goods Stores
2. Assignment Sheet 5.01: Establishing Market Contacts--Large Stores
3. Assignment Sheet 5.01: Establishing Market Contacts--Large Stores Key

Teacher Activities:

1. Distribute Information Sheet 5.01 for students to study and discuss.
2. Divide students into small groups for discussion.
3. Distribute and explain Assignment Sheet 5.01 for students to complete for teacher evaluation and review.

Student Activities:

1. Study Information Sheet 5.01 for class discussion.
2. Complete Assignment Sheet 5.01.

INFORMATION SHEET 5.01

Establishing Market Contacts--
Large And Shopping Goods Stores

Large retail stores tend to make their contacts directly with the market rather than through middlemen. They interview sales representatives and may buy some merchandise through them; but general merchandise, clothing, and furniture stores do not depend heavily on such calls or on membership in voluntary chains. The large stores concentrate on other means of making market contact. These means are: (1) market trips; (2) resident buying offices; (3) group buying; and (4) central buying.

Market Trips

Many retailers take the initiative of going to vendors instead of waiting for vendors to call on them. Wholesale markets are usually concentrated in small areas within a city. Retailers of these products go to these markets to inspect the offerings and to buy the goods.

In addition to local markets, certain cities become known as central markets for certain items. For instance, New York City is well known as the largest single market in the whole world for women's wear and many other types of merchandise. Los Angeles and San Francisco are giving New York some competition as a central market for fashion goods. For shoes, Boston, St. Louis, and Chicago (in addition to New York) may be considered as central markets. Some of the central markets for furniture are High Point, North Carolina; Chicago; Dallas; Los Angeles; and San Francisco.

When a buyer visits these central markets, he/she goes to the individual showrooms or stalls of the vendors whose lines he/she wants to inspect. Usually these showrooms are located close together so that they can be visited in a short space of time. One advantage of going to the market is that the buyer can see the offerings of many manufacturers before placing an order.

How often a buyer visits the central market depends upon the type of merchandise, the size of the retail store, and the distance of the store from the central market.

While many buyers will visit the market as frequently as possible, others may visit the central market only once a year or only during seasonal market openings. Some people do not like the rush and excitement of a market trip. They believe that they can make better decisions without the pressure of the market and the presence of suppliers' representatives. By not going to the market, these buyers may be missing some of the best sources of merchandise, since not all vendors can or will send sales representatives to the stores.

A great deal of information is shared by buyers when they informally meet at the market. They compare notes on resources and merchandise that they have found profitable (or not so profitable). Such exchanges are likely to be between noncompeting buyers who are from stores in different cities. The sharing of ideas and details of merchandising, pricing, and promoting by buyers from similar stores can be helpful in many ways.

Resident Buying Offices

For merchants of fashion goods whose stores are some distance away from the wholesale markets and who make few market trips, the resident buying office is essential. Even the buyers who make many trips to the central markets find that visiting the resident buying office is an excellent way to begin the study of the merchandise offerings and suppliers in the market.

Services of resident buying offices. The resident buying office helps stores find the best sources for goods of every classification, price, and style. It keeps the store in touch with all developments in the wholesale market, including new styles, price changes, and bargains. This office buys goods for the store whenever the store buyer is unable to go to the market. The buying is based on a description of what is needed by the store. The resident buying office follows up on store orders to see that goods are shipped on time; handles adjustments involving returns or cancellations of orders; and may consolidate into one large shipment purchases made from different manufacturers, thus saving transportation charges. Services provided to a store buyer include office space, a stenographer, resident buying personnel, and notification to manufacturers of the date the store buyer will be in town. A resident buying office provides one of its own buyers to help the store buyer make selections. Price concessions and exclusive styles for the store can be acquired occasionally by this office because of its association with other stores that buy the same styles. It gives advice on problems of storekeeping with which a merchant or a buyer may experience difficulty.

Group Buying

Group buying gives individual customers price advantages that only large customers formerly had. It guarantees a seller a certain volume of sales; in return, the seller agrees to sell to members at a price just enough over cost to make a profit. United Buying Service Corporation (UBS) is the largest group buying organization. Guaranteed Foods, Incorporated, and Grocery Supply Company are other examples of group buying offered to individual customers under a membership agreement. Group buying provides a variety of products--cars, furniture, appliances, cameras, foods.

Central Buying

Chains separate their buying from their selling. In the chains, central buyers specialize in the selection of merchandise and store managers specialize in selling. Groups of independent stores are also experimenting with this plan, generally through the agency of their resident buying offices. The individual store buyers are replaced with sales supervisors, and buying is concentrated in a central office.

There are three main kinds of central buying: (1) central merchandising; (2) listing system; and (3) central warehousing and requisitioning.

Central merchandising. The central merchandising plan is used extensively with fashion merchandise. The sales supervisor sends to the central office a daily report of the stock of different styles and styles sold.

On a basis of the knowledge obtained from all stores, the central office decides what merchandise to buy for the group of stores as a whole, what to send to each store, and even when goods in the various stores should be marked down. The central buyers keep informed about peculiarities of demand in different stores and try to avoid sending styles that will not sell.

Listing system. In the listing system, the central buyers decide on the items that stores may carry and their prices and then sends each store a list or catalog of these items. The store decides which of these items to stock and orders them in the quantities needed at the appropriate time. This plan is used for shopping goods that do not change as rapidly in style as dresses and certain other items of women's apparel.

Central warehousing and requisitioning. When central buying is applied to such products as groceries and drugs, a central warehousing and requisitioning plan is used. The central buyer purchases and warehouses the staple goods, and the stores order what they need by means of requisitions to the warehouse. Thus, the central buyers actually buy--they do not simply make buying arrangements--but the stores decide when and how much to requisition from the warehouse.

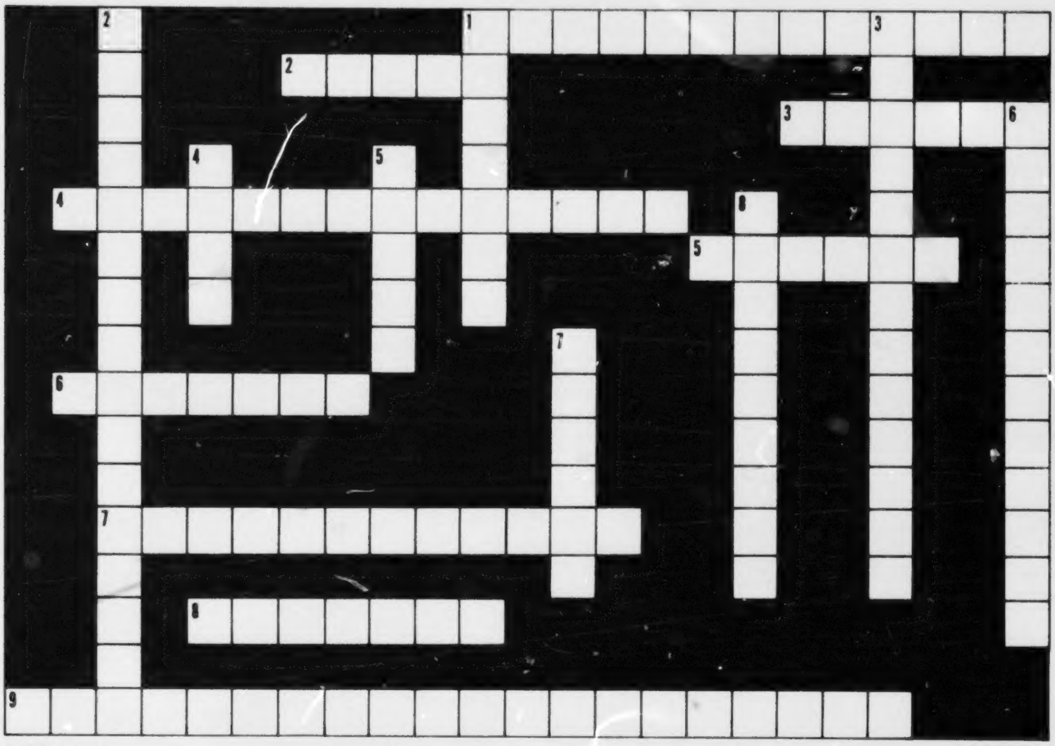
Retail Merchandising, 8th Edition, Wingate and Samson, Southwestern Publishing Co., Cincinnati, Ohio 45227 pp. 220-25.

BUYING AND PRICING

ASSIGNMENT SHEET 5.01

Establishing Market Contacts--Large Stores

Directions: Complete the following crossword puzzle from information in Information Sheet 5.01.



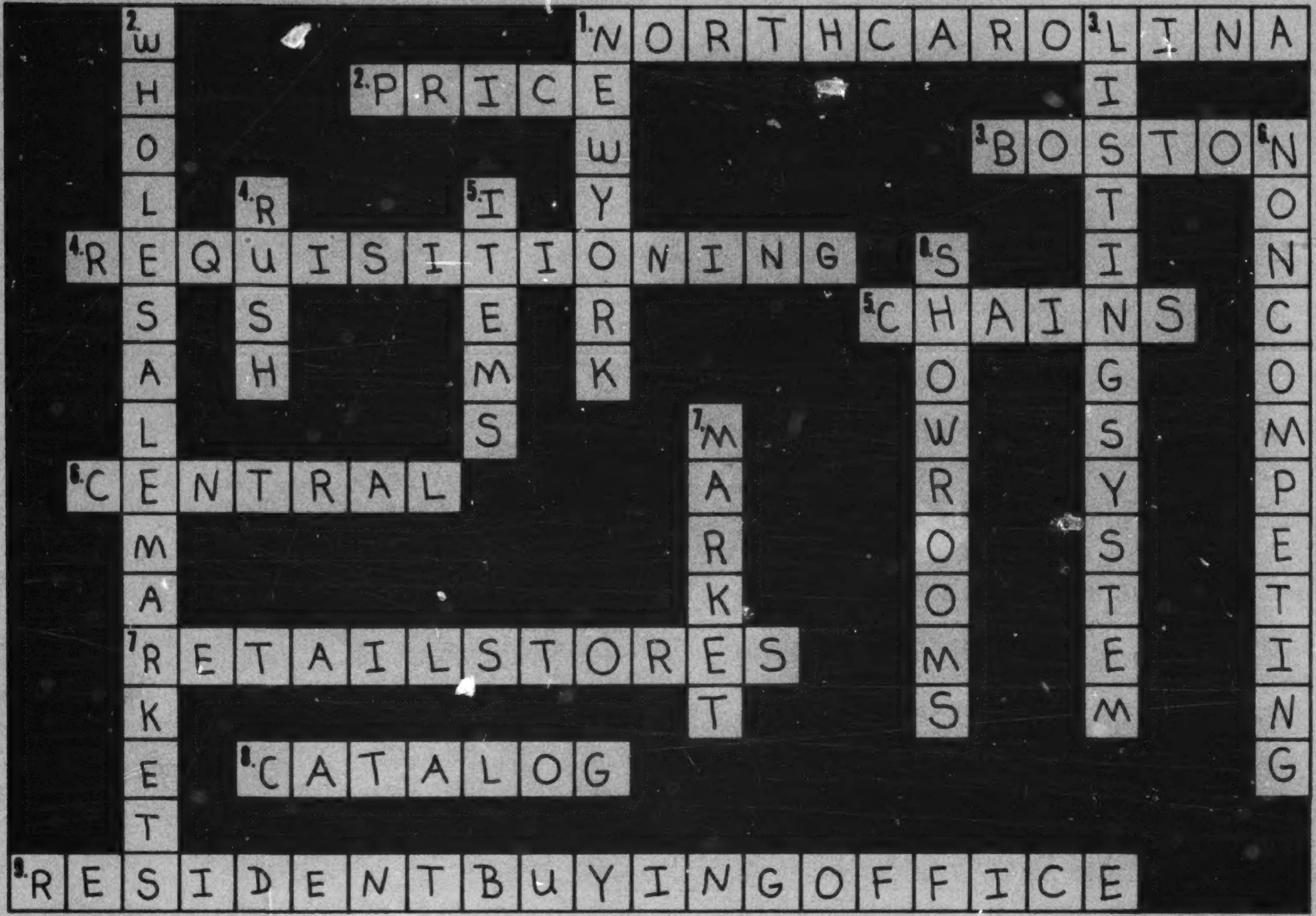
ACROSS

1. Central market for furniture (2 words)
2. Cost of goods given for an item
3. Central market for shoes
4. Type of central buying
5. Separate their buying from selling
6. Marketing used extensively with fashion merchandise
7. Tend to make contacts with market (2 words)
8. List of items sent to a store
9. Helps stores find best source for goods (3 words)

BUYING AND PRICING

ASSIGNMENT SHEET 5.01

Establishing Market Contacts--Large Stores Key



		2.W								1.N	O	R	T	H	C	A	R	O	3.L	I	N	A
		H				2.P	R	I	C	E									I			
		O								W							3.B	O	S	T	O	6.N
		L		4.R				5.I		Y									T			O
	4.R	E	Q	U	I	S	I	T	I	O	N	I	N	G		8.S			I			N
		S		S				E		R					5.C	H	A	I	N	S		C
		A		H				M		K						O			G			O
		L						S				7.M				W			S			M
	6.C	E	N	T	R	A	L					A				R			Y			P
		M										R				O			S			E
		A										K				O			T			T
		7.R	E	T	A	I	L	S	T	O	R	E	S			M			E			I
		K										T				S			M			N
		E		8.C	A	T	A	L	O	G												G
		T																				
9.R	E	S	I	D	E	N	T	B	U	Y	I	N	G	O	F	F	I	C	E			

BUYING AND PRICING

LESSON PLAN #6

Time for Lesson: One 55-minute class period

Objectives: After completion of this lesson, students should be able to:

16.09 Decide from where and from whom to buy.

16.10 Select a method which may be used to keep track of profitable sources of supply.

Resources:

1. Information Sheet 6.01: Selecting Resources
2. Information Sheet 6.02: Preparing A Resource File
3. Assignment Sheet 6.01: Preparing A Resource File
4. Assignment Sheet 6.01: Preparing A Resource File Key

Teacher Activities:

1. Distribute Information Sheets 6.01 and 6.02 for students to study and discuss.
2. Distribute Assignment Sheet 6.01.

Student Activities:

1. Study Information Sheets 6.01 and 6.02 for class discussion.
2. Complete Assignment Sheet 6.01.

100

BUYING AND PRICING

INFORMATION SHEET 6.01

Selecting Resources

The number of manufacturers or sources of supply for a single consumer good is sometimes amazing. For example, in a current housewares directory there are forty-six manufacturers listed for carpet and rug cleaners. Regardless of how the retailer locates resources, there remains the problem of making choices among them. With the consumer's growing insistence on sound values and suitable goods, the problem of selecting the right resources is particularly important.

There are many factors the buyer must consider before deciding from whom to buy. The buyer is constantly urged by sales representatives, manufacturers, wholesalers, and others to place orders with them. Being aware of some of the important factors in selecting a resource helps the buyer avoid making costly mistakes.

There are two broad classes of resources that a retailer can utilize in buying: (1) manufacturers and producers, and (2) wholesale middlemen. The goal in selecting from among the suppliers of merchandise is to find sources that will supply merchandise which will satisfy the wants of the store's customers at a price that will enable the store to realize a profit on its resale.

Factors in Selecting Resources

Suitability of supplier's line to store customers. What a buyer purchases depends upon the type of customers who deal at a store. A supplier who specializes in high-grade, expensive merchandise must be passed up by a buyer who sells chiefly to low income workers and their families. If the goods are similar to what the customers have been buying or if the customers could easily be persuaded to buy the goods, the resource is classified as suitable.

The quality of the merchandise in a particular price line is an important consideration in determining the suitability of the goods for the store. There should be evidence that the vendor maintains a consistent standard of quality.

Speed of delivery. When a retailer cannot estimate the needed supplies far enough in advance, a vendor is needed who can send goods quickly. Products needed for special sales, area events, and holiday seasons are sometimes needed on a very speedy basis.

Credit policies. The length of time the vendor allows for paying bills is important to the buyer. If a vendor will not sell except for cash and if a retailer is operating on limited capital, it is doubtful whether the vendor will enjoy much of this retailer's business.

Dealer supplied. Vendors who provide displays, advertising materials, and other sales aids to the retailer are a big help to the merchant.

Adequate supplies of merchandise sold. A vendor may have desirable merchandise, but the line of goods may be so narrow or incomplete that the buyer cannot completely benefit from buying from the supplier. The small store usually finds it desirable to buy from resources which carry broad assortments of many items that the store may need. This saves time in buying, reduces transportation charges, and provides discounts. The large store can buy from more specialized resources, but the suppliers must be equipped to handle very large reorders.

Ability to manufacture to store's specifications. The ability to manufacture to a store's specifications is important to central buyers who develop exclusive merchandise for their stores by giving manufacturers detailed specifications in regard to materials, workmanship, and measurements.

Shipping policies. A buyer who needs only a few items at a time cannot buy from a vendor who sells only in gross lots. The reverse is also true. A buyer who needs large quantities often cannot buy from excellent, but small, resources that cannot or will not ship the amounts needed.

Reasonable prices. Every buyer looks for reasonable prices. The buyer must exercise great care not to buy inferior merchandise in an attempt to secure lower prices. In many lines, prices are standardized.

Newness of line. Every buyer likes a vendor who has up-to-date merchandise in his/her line. Particularly in fashion goods, it is important that the vendor have merchandise which is enjoying an upswing in the fashion cycle. A vendor who keeps abreast of the new features and items is one who can help the retailer make a profit.

Creativity. The buyer who aims at a reputation for unusual and exciting merchandise will give preference to the manufacturer--often a small one--who has a flair for developing new ideas in merchandise.

Retail Merchandising, 8th Edition, Wingate and Samson, Southwestern Publishing Co., Cincinnati, Ohio 45227 pp. 226-27.

BUYING AND PRICING

INFORMATION SHEET 6.02

Preparing A Resource File

For every one of the manufacturers and the wholesalers contacted, the buyer should make out a resource card giving the name and address of the seller, the terms allowed, the kinds of goods carried, the prices in which the seller specializes, the name of the salesperson met, and the general impression of the firm. In the event that he/she makes a purchase, he/she should record on the card the promptness of delivery and the care exercised in filling the order. These cards should be arranged by classification and by price line. If this is done, the buyer will have an excellent resource file to which to refer when in need of new stock.

A carefully selected group of vendors that have been found satisfactory in meeting the needs of the merchant will become a key resource of the store. The vendors who supply goods on which the retailer enjoys a large sales volume with a substantial markup are generally found on the list of key resources.

The small retailer of convenience goods usually chooses a service wholesaler as his/her key resource; the large retailers of fashion merchandise will generally buy directly from manufacturers.

Large-scale retailers will buy the entire supply of an independent manufacturer. This way the retailer can control some of the quality of the product and provide it to the customers in a quantity that will allow a low retail price.

Many retailers of specialized merchandise lines will buy goods at auctions. Some examples would be antiques and cars. Fresh fruits, vegetables, seafoods, meats, and poultry products may be purchased at auctions for supermarkets.

One last source of supplies that needs to be mentioned is the foreign market. To obtain imported goods of the type and quality desired, the retailer must be extra careful in his/her search for resources. Federal laws on merchandise, especially fabrics and toys, must be observed on all imports. The retailer may contact foreign resources using one or more of the following procedures: (1) sending a store buyer abroad regularly to comb the markets for the merchandise wanted; (2) using resident buyers who establish foreign offices; (3) buying from an American importer who has his/her own foreign supply lines; or (4) buying from a foreign exporter who has set up offices in American market centers.

Retail Merchandising, 8th Edition, Wingate and Samson, Southwestern Publishing Co., Cincinnati, Ohio 45227 pp. 229-31.

ASSIGNMENT SHEET 6.01

Preparing A Resource File

Directions: Select an appropriate business of your choice and complete the following.

1. Name of business ______________________________

2. Type of business ______________________________

3. List at least five vendors supplying the business.

   a.

   b.

   c.

   d.

   e.

4. List magazines or other periodicals to which the business subscribes.

   a.

   b.

   c.

ASSIGNMENT SHEET 6.01

Preparing A Resource File Key

Composition of the material will be left to the teacher's discretion. However, below is an example of possible answers to the assignment.

1. K Mart
2. Discount store
3. a. Lego Systems, Inc. - toys
    b. Abbott Industries - lamps
    c. Louis Hand - curtains and drapes
    d. Eastman Kodak - cameras
    e. Ragu Foods - food
4. a. Photography Weekly
    b. Hardware Age
    c. Discount Merchandiser

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BUYING AND PRICING

LESSON PLAN #7

Time for Lesson: One 55-minute class period

Objective: After completion of this lesson, students should be able to:

16.11 Explain the process by which goods and services in several different types of businesses are marked up.

Resources:

1. Information Sheet 7.01: Markup
2. Assignment Sheet 7.01: Markup
3. Assignment Sheet 7.01: Markup Key

Teacher Activities:

1. Distribute Information Sheet 7.01 for students to study and discuss.
2. Distribute Assignment Sheet 7.01 to be completed by the next class period.

Student Activities:

1. Study and discuss Information Sheet 7.01.
2. Complete Assignment Sheet 7.01.

BUYING AND PRICING

INFORMATION SHEET 7.01

Markup

In establishing a retail price on merchandise, the retailer must make the price large enough to cover his/her expenses and earn a profit. At the same time, the price must also be made attractive to customers. The amount that a merchant adds to the cost price of merchandise in arriving at the retail price is called markup. This includes store expenses and profit. If a retailer buys a shirt for $18.00 and sells it for $20.00, what the retailer adds to the cost price ($2.00) is the markup of the shirt. This markup is known as dollar markup because it is expressed in dollars.

Most of the time markups are looked at in terms of a percentage rather than a dollar-and-cents figure. With a percentage, it is easy to make a comparison of markups even though the prices on various items may be different. Once the dollar amount of markup is known, it is simple to convert this figure to a percentage. Markup may be expressed either as a percentage of retail price or as a percentage of cost price. If markup is to be expressed as a percentage of retail, it may be calculated by using this formula:

$$\text{Markup Percentage} = \frac{\text{Markup in Dollars}}{\text{Retail Price}}$$

If a merchant buys a pair of pants for $15.00 and plans to sell them for $22.00, then his/her markup is $7.00 and the markup percentage is 32 percent.

If markup is to be expressed as a percentage of cost, it may be calculated by using this formula:

$$\text{Markup Percentage} = \frac{\text{Markup in Dollars}}{\text{Cost Price}}$$

In the above example, the markup on the pants--expressed as a percentage of cost--is 47 percent. Note that although the percentages differ, the amount of markup in dollars and cents is the same. Markups expressed as a percentage of retail price is the most common of the two methods used to calculate markups because profits and expenses are also figured in terms of retail sales. Thus, all the figures are in the same terms. These markup equations express the relationship of cost price, amount of markup, and retail price. For example, an item of merchandise selling for $4.95 cost the retailer $3.15. The markup is $1.80 on cost ($4.95 - $3.15 = $1.80).

Markup Equations

Cost + Markup = Retail

Cost X Rate of Markup = Markup

Cost = Retail - Markup

Markup = Retail - Cost

Markup percent is different depending on whether it is based on cost or retail price. The following formulas show how to calculate these percentages. The retail price is the same in both cases, but markup percent is different depending upon what markup is based--cost or price.

Markup Based on Cost

$$\text{Markup on Cost} = \frac{\text{MU in \$}}{\text{Cost in \$}} \times 100\%$$

$$\text{Markup on Cost} = \frac{\$3}{\$5} \text{ X } 100\%$$

Markup on Cost = 60%

Cost Price + MU on Cost = $5 + 60% of $5 ($3.00)

Retail Price = $8

Markup Based on Retail Price

$$\text{Markup on Retail Price} = \frac{\text{MU in \$}}{\text{RP in \$}} \text{ X } 100\%$$

$$\text{MU on RP} = \frac{\$3}{\$7} \text{ X } 100\%$$

MU on RP = 43%

CP + MU on RP = $5 + 43% of $7 ($3.01)

RP = $8.01

Initial and Maintained Markups

The two types of markups commonly used in retailing are the initial markup and the maintained markup. Let us suppose that a man's hat costs a retailer $8.00 and is priced to sell at $12.00. The $12.00 price is called the original retail selling price. Later the hat may be reduced and sold at a price of $8.95. The $8.95 price is called the final sales price. The difference between the cost price and the original retail price is called the initial markup. The difference between the cost price and final sales price is the maintained markup. The maintained markup must be high enough to pay expenses and to provide a profit. The initial markup must be higher to provide also for any necessary price reductions.

Initial markups vary with the nature of the merchandise stocked and the type of store. For example, a specialty store may have initial markups of 50% or more because some of the goods will probably be marked down to sell. On the other hand, a discount store may set lower initial markups because they depend greatly on low prices to attract customers.

Planning Markups

In planning markups there are several things that the retailer must estimate:

1. Total sales for the coming year or season;
2. Expenses for that period;
3. Price reductions (markdowns, shortages, employee discounts, etc.); and
4. Profit goal for the period.

The formula for estimating the correct initial markup is as follows:

$$\text{Initial Markup} = \frac{\text{Expenses} + \text{Profits} + \text{Price Reductions}}{\text{Sales} + \text{Price Reductions}}$$

Suppose that a retailer estimates annual sales at $100,000, expenses at $30,000, and price reductions at $10,000, and he/she wishes to have a profit goal of $5,000. The formula would then read:

$$\text{Initial Markup} = \frac{\$30{,}000 + \$5{,}000 + \$10{,}000}{\$100{,}000 + \$10{,}000} = \frac{\$45{,}000}{\$110{,}000} = 40.9\%$$

The dollar markup the retailer must have is the total of the expenses, profits, and reductions--$45,000. The estimated sales of $100,000 is the expected result after the reductions have been made. Thus, the estimated reductions of $10,000 must be added to the sales ($100,000) to find the total retail at which the goods must first be put into stock ($110,000). Finally, $45,000 is divided by $110,000 to determine the markup as a percentage of the retail price. This retailer must have an initial markup of 40.9 percent.

This formula shows the markup the store needs in order to make a profit. This calculated markup is not used on each item, but rather it provides a useful guide in showing the average markup needed to realize a profit goal.

There are many national brand articles, coined fair-trade items, which have a minimum retail price set by the manufacturer or wholesaler. Because this minimum price many times becomes the established price, the retailer must adjust the price of nonprice fixed goods to achieve desired markup.

Retail Merchandising, 8th Edition, Wingate and Samson, Southwestern
Publishing Co., Cincinnati, Ohio 45227 pp. 308-12.

BUYING AND PRICING

ASSIGNMENT SHEET 7.01

Markup

Directions: Compute the following problems showing your work.

1. A scarf cost a store $5 and the store sells it for $7.50. What is the dollar markup? ______________________

2. A store can purchase a supply of flower pots at $4.50 each and sell them for $6.75 each. If the baskets are sold, what is the percentage of markup based on cost? What is the percentage of markup based on retail price? ____________ ______________

3. An article that cost $3.95 was sold for $5. Find the dollar markup and the markup percentage based on selling price.

    ____________________ ____________________

4. A music dealer priced a piano bench that cost $85 at a markup rate of 65% based on cost. How much was the marked selling price? ______________

5. A dealer paid $224.50 for an electric stove and $5.50 for the freight charge. What is the lowest price at which the stove should sell at a markup rate of 55% based on total cost?

    ____

6. Find the markup and retail price in each of the following sales.

Cost	% Markup Based on Cost	Markup	Retail Price
$175.00	15%		
$ 60.00	10%		
$ 63.50	25%		
$425.00	20%		
$572.00	10%		

7. The selling price of an article is $180 and the cost is $108. Find the dollar markup and the rate of markup based on cost.

8. The selling price of an article is $90.00. The cost price is $67.50. Find the amount of markup in dollars and the rate of markup based on cost.

9. Find the dollar markup and the markup percentage based on the cost of an item selling for $14.56. Cost of the item to the buyer was $10.40.

10. An article cost $24 and was sold for $30. Find the dollar markup and rate of markup based on selling price.

11. Helton's Clothing Store sells a line of women's suits at $110 each. If each suit costs $71.50, what rate of markup does the store realize on the selling price? ____________

12. Devore's Shoe Shop is going to buy a quantity of shoes that will be sold for $18.50 a pair. What is the highest price that Devore can pay for each pair in this line if the markup must be 38% of the selling price? ________________

13. Donald's markup rate for the Marquardt Suit Shop is 45% of the selling price. How much are the cost and the markup on a suit selling for $98.96? ____________ ______________

14. Determine what selling price will yield a 40% markup on selling price on men's dress shirts when cost is $12 each. __________

15. What is the initial markup percentage for a retailer who estimates annual sales at $150,000, expenses at $35,000, and price reductions at $15,000. The retailer has a profit goal of $8,000. ________________

BUYING AND PRICING

ASSIGNMENT SHEET 7.01

Markup Key

1. \$7.50 - \$5.00 = \$2.50 MU

2. \$6.75 - \$4.50 = \$2.25

   $\frac{\$2.25}{\$4.50} \text{ X } 100 = \frac{\$225.00}{\$4.50} = 50\%$ MU on cost

   $\frac{\$2.25}{\$6.75} \text{ X } 100 = \frac{\$225.00}{\$6.75} = 33\ 1/3\%$ MU on retail price

3. \$5.00 - \$3.95 = \$1.05 MU

   $\frac{\$1.05}{\$5.00} \text{ X } 100 = 21\%$ MU on selling price

4. \$85 X .65 = \$55.25
   \$55.25 + \$85 = \$140.25 marked selling price

5. \$224.50 + \$5.50 = \$230.00
   \$230.00 X .55 = \$126.50
   \$230.00 + \$126.50 = \$356.50 lowest selling price

6.

Markup	Retail
\$26.25	\$201.25
\$ 6.00	\$ 66.00
\$15.88	\$ 79.38
\$85.00	\$510.00
\$57.20	\$629.20

7. \$180 - \$108 = \$72 MU

   $\frac{\$\ 72}{\$108} \text{ X } 100 = 66\ 2/3\%$ MU on cost

8. \$90.00 - \$67.50 = \$22.50 MU

   $\frac{\$22.50}{\$67.60} \text{ X } 100 = 33\ 1/3\%$ MU on cost

9. \$14.56 - \$10.40 = \$4.16 MU

   $\frac{\$\ 4.16}{\$10.40} \text{ X } 100 = 40\%$ MU on cost

BUYING AND PRICING

LESSON PLAN #8

Time for Lesson: One 55-minute class period

Objective: After completion of this lesson, students should be able to:

16.12 Explain the process by which goods and services in several different types of businesses are marked down and discounted.

Resources:

1. Information Sheet 8.01: Markdown
2. Information Sheet 8.02: Discount
3. Assignment Sheet 8.01: Markdown
4. Assignment Sheet 8.01: Markdown Key
5. Assignment Sheet 8.02: Markdown Problems
6. Assignment Sheet 8.02: Markdown Problems Key
7. Assignment Sheet 8.03: Discount Problems
8. Assignment Sheet 8.03: Discount Problems Key

Teacher Activities:

1. Distribute Information Sheet 8.01 for students to study and discuss.
2. Distribute and complete Assignment Sheet 8.01.
3. Distribute Information Sheet 8.02 for students to study and discuss.
4. Distribute Assignment Sheets 8.02 and 8.03 to be completed by the next class period.

Student Activities:

1. Study and discuss Information Sheets 8.01 and 8.02.
2. Complete Assignment Sheet 8.01.
3. Complete Assignment Sheets 8.02 and 8.03 by next class period.

INFORMATION SHEET 8.01

Markdown

Price reductions usually include markdowns, employee and customer discounts, and inventory shortages. Markdowns typically account for the greater part of price reductions. A price reduction of an item of merchandise from a former retail price to a lower asking price, except for discounts on special goods, is called a markdown. Markdowns can be an effective means of adjusting stocks to customer demand and competition.

Calculation of Markdowns

While retailers advertise markdowns to customers as a percentage off the original retail price, for their own use, retailers express them as a percentage of the final sales price of all goods sold during a period--a month, a quarter, or a year.

The markdown percentage is calculated by using this formula:

$$\text{Markdown Percentage} = \frac{\text{Dollar Markdowns}}{\text{Total Sales}}$$

For example, if 10 items originally priced at $5 each are marked down to $3.95 each, the markdown is $10.50. If the total sales including the sales of the marked down goods during the period are $100, the markdown is 10.5 percent of the total sales. Retailers also will express markdown in terms of dollar and cents.

(Sale Price = Original Retail Price - Percent of MD (or $)

Sale Price = Markdown Price

Reasons for Markdowns

There are two major reasons for markdowns: first, to reduce prices on merchandise that the customers are not buying at the expected quantity or rate of sale; and, second, to stimulate the sale of the reduced item or of other regularly priced goods during the special sale.

Most markdowns are caused by three types of errors. The first is a result of buying mistakes. Merchandise may not sell at the regular price because too much was bought too late, it wasn't bought at the correct time, or the best sellers weren't purchased. Another frequently made error is in pricing. The buyer may overprice his goods; and, as a result, they don't sell. Finally, errors often take place in the selling process. Sales staff may pressure people into buying things that they later return. This type of merchandise is usually marked down. Also, the salesperson may ignore goods in stock which eventually age and must be marked down. Unfavorable weather conditions are something over which the retailer has no control. Seasonable merchandise results in markdowns to remove the merchandise inventory.

Markdowns may also be a result of store policy and not caused by error on anyone's part. Many times goods are marked down for sales promotions or to make room for new stock. Some store managers take a high markup on merchandise quickly followed by a large markdown to cater to bargain seekers. Goods may also be marked down to compete with other merchandisers.

Markdown Policies

There are two important things to consider in markdowns.

They are the timing and the amount. In timing markdowns, they may be taken at several times within the selling season, or they may be taken late in the selling season in the form of a clearance sale.

There are advantages to either plan of timing. If markdowns are taken several times within a selling season, the store can generally achieve a smaller markdown per item. The goods are marked down while there is still some active demand for them, and a small price reduction is generally enough to sell them. Early markdowns generally reduce the selling expense of a particular item; selling the goods eliminates excess storage expenses; and special salespeople do not have to be hired for a clearance sale.

On the other hand, many stores prefer clearance sales held late in the season. Clearance sales do not interfere with the sale of regularly priced merchandise as do markdowns offered several times within a selling season. The quantity of stock accumulated for markdown during a season means that the clearance sale can become an important selling event. It can be promoted by advertising and is looked forward to by bargain seekers who may also buy some of the regularly priced merchandise.

In determining markdowns, the merchant must look at each particular item in each particular selling situation. Some stores, however, do have fixed markdown percentages and mark their goods down a certain percentage after the goods have been in stock for a certain period of time. This practice is called automatic markdown. When determining the first markdown, the merchant should make sure it is large enough to sell most of the items which are being reduced in price. It is also important to have the markdown large enough to make the goods seem a bargain to customers at the new price so they will want to buy.

Retail Merchandising, 8th Edition, Wingate and Samson, Southwestern Publishing Co., Cincinnati, Ohio 45227 pp. 313-17.

BUYING AND PRICING

INFORMATION SHEET 8.02

Discount

Discounts are a very common and important process in business. A discount is a percent subtracted from the price of merchandise. Discounts on merchandise are normally given to employees of a business as a fringe benefit and to customers of the business as an incentive to increase sales volume.

If a store allows its employees a 10% discount on all purchases and an employee wants to purchase a $10 item, the discount would be $1 and the selling price to the employee would be $9. Sales tax is computed on discount price, not original selling price.

If a store is having a post-seasonal sale and is discounting everything to 25%, what would be the discount and selling price to a customer who buys three items at $2.50, two items at $7.95, and one item at $20.00? $7.50 + $15.90 + $20.00 = $44.40. A discount of 25% on $44.40 is $11.10, leaving the selling price at $33.30.

Retailers try to discount their purchases from manufacturers to save on the cost of the merchandise, to pass these savings on to the customers, to earn a better profit, and to get a better credit rating.

There are three main types of discounts in business--cash, trade, and chain discounts.

Cash Discounts

An invoice, the bill for merchandise purchased, has a date on it.

The time when an invoice is to be paid is usually computed from this date. A cash discount is a discount offered to the purchaser as an inducement to pay before the due date of the invoice. The four methods of dating for discount payment are: (1) regular dating; (2) extra dating; (3) advance dating; and (4) EOM dating.

Regular dating. Regular dating states terms as 2/10, net 30. This means the purchaser can deduct two percent of the purchase price if he/she pays within 10 days of the date of the invoice. Otherwise, the whole amount of the invoice is due in 30 days.

Extra dating. Extra dating simply gives the buyer an extended discount period. An invoice with 2/10, 30 extra on it means the buyer may take a 2% discount within 10 days of the date of the invoice plus an extra 30 days or a total of 40 days in all in which to take advantage of the discount.

Advance dating. Advanced dating is used to encourage the buyer to buy merchandise early (such as seasonal items) and pay at a later date for the purchase. Terms might read 2/10 January 1, net 90 for merchandise purchased in November. This means the retailer gets a 2% discount if payment is made by January 10 (10 days after month and day given in terms on the invoice) but must pay full price 90 days after January 1.

EOM dating. EOM dating is a discount term stated 2/10 EOM, net 90. It means the buyer can take a 2% discount within 10 days after the end of the month of the invoice date but must pay the full amount after 90 days have elapsed. An invoice dated June 5 gives the buyer until July 10 to take advantage of the discount.

Trade Discounts

Trade discounts are discounts given between businesses, such as between retailer and manufacturer or wholesaler. If a microwave oven normally sells for $450 to retail customers, the manufacturer may offer the ovens to an appliance dealer at a trade discount of 40%. The retailer's cost would be figured as follows: $450 X 40% = $180 discount. $450 - $180 = $270 retailer cost.

Chain Discounts

A manufacturer sends his/her customers a catalog listing prices of merchandise, but buyers are permitted deductions from the list prices. A chain discount is two or even more discounts from the list price. Catalog price of a chain saw in the manufacturer's catalog is $175. However, the chain discount to the retailers is 30%, 20%. The retailer would deduct 30% on the original price and 20% on the first discounted price to find the cost of the chain saw. For example, $175 X 30% = $52.50 first discount. $175 - $52.50 = $122.50. $122.50 X 20% = $24.50 second discount. $122.50 - $24.50 = $98.00 cost to retailer.

BUYING AND PRICING

ASSIGNMENT SHEET 8.01

Markdown

Directions: In the space provided, place a "T" if the item is true and an "F" if the item is false.

_____ 1. When retailers advertise markdowns to customers, the reductions are stated most often in terms of dollars saved rather than as a percentage off the regular price.

_____ 2. The best policy in setting the amount of markdown is to take an initial markdown large enough to sell most of the items.

_____ 3. All markdowns are caused by errors made in buying and pricing the merchandise.

_____ 4. Initially, some merchants deliberately overprice their merchandise to make it seem more attractive later at a reduced price.

_____ 5. There are specific rules for determining the amounts of markdown.

_____ 6. Meeting competition is a reason for marking down products.

_____ 7. Fashion merchandise should be marked down as soon as customer demand begins to drop.

_____ 8. Reducing retail stock early in the season means that the store may reduce the selling expense of a particular item.

_____ 9. Automatic markdown is a fixed markdown percentage taken after a fixed period of time.

BUYING AND PRICING

ASSIGNMENT SHEET 8.01

Markdown Key

1. F
2. T
3. F
4. T
5. F
6. T
7. T
8. T
9. T

ASSIGNMENT SHEET 8.02

Markdown Problems

1. A flower vase has been priced to sell for $20. You have been asked to reduce the price 30%.
   - a. What is the markdown of the sale price? ________________
   - b. What is the selling price? ________________

2. At Miller's Music Shop 50 scores of sheet music were marked down from $3.00 to $2.50.
   - a. What is the total markdown on sheet music? ____________
   - b. Two weeks later an additional markdown was taken to $2.25 for the remaining 30 scores of music. What is the total markdown to date? ______________

3. Sales at Judy's Jewelry Store amounted to $5,000.00 for the month of February, and markdowns taken for the period were $250.00. What is the markdown percent? ____________________

4. At Pat's Pet Shop 100 tropical fish were marked down from $1.50 to $1.35. One week later 30 remaining tropical fish were marked down to $1.00. Tropical fish sales to date amounted to $500.00.

   a. What is the total dollar MD on first MD? ____________
   b. What is the total dollar MD on second MD? ____________
   c. What is the total dollar amount of all MDs? ________
   d. What is the total MD percent to date? ________________

5. At Limback's Linens 150 flat twin size sheets and 150 twin size fitted sheets were marked down from $4.50 to $3.75.

   a. What is the total MD? ______________
   b. An additional markdown to $3.50 was made a few weeks later on the remaining 100 sheets. What is the total MD to date? ________________

6. Sales on leather goods for a department store for one month were $6,500. Markdowns for that month were $390. What is the markdown percent? ____________

7. Nellie's Novelty Shop marked down 90 gift items from $4.25 to $4.00. Later 20 gift items remained and were marked down to $3.50. Total sales for gift items amounted to $450.

   a. What is the total dollar MD on first MD? __________
   b. What is the total dollar MD on second MD? __________
   c. What is the total amount of all MDs? ______________
   d. What is total MD percent to date? __________________

8. A buyer decides to mark down a group of $5.00 scarves that have been on the selling floor for more than 6 months. The buyer marks down the 50 scarves to $3.99.

   a. What is the total dollar MD? ____________
   b. The buyer marks down 20 scarves to $1.99. What is the total dollar markdown on second MD? ____________
   c. The remaining 10 scarves are marked down from $1.99 to $ .49. What is the total dollar markdown on third MD? ____________
   d. What is the total amount of all MDs? ____________
   e. What is the markdown percent if total sales to date have been $1,349.50? ____________

9. What is the markdown percent of $10,000 in sales with $600 in markdowns during that period of time? ____________

10. A dress store decides to markdown 74 nonselling $29.95 dresses to $24.77.

   a. What is the total dollar amount of first MD? ____________
   b. Two weeks later the dress store orders the remaining 26 dresses marked down to $17.77. What is the total dollar amount of the second MD? ____________
   c. What is the total dollar markdown? ____________
   d. What is the total markdown percent to date if total sales for the period were $6,400? ____________

BUYING AND PRICING

ASSIGNMENT SHEET 8.02

Markdown Problems Key

1. a. $20 X .30 = $6.00 MD
   b. $20 - $6 = $14 selling price

2. a. $ .50 X 50 = $25.00 MD
   b. $ .25 X 30 = $ 7.50
   $32.50 total MD to date

3. $\frac{\$\ 250}{\$5{,}000}$ = .05 or 5% MD

4. a. $ .15 X 100 = $15.00 MD
   b. $ .35 X 30 = $10.00 MD
   c. $25.50 total MD to date
   d. $\frac{\$25.50}{\$500.00}$ = .05 or 5% MD

5. a. 300 X $ .75 = $225 MD
   b. 100 X $ .25 = $25.00 + $225 = $250.00 total MD to date

6. $\frac{\$\ 390}{\$6{,}500}$ = 6% MD

7. a. $ .25 X 90 = $22.50 MD
   b. $ .50 X 20 = $10.00 MD
   c. $32.50 total MD to date
   d. $\frac{\$32.50}{\$\ 4.50}$ = 7% MD

8. a. $5.00 - $3.00 = $1.01
   50 X $1.01 = $50.50 MD
   b. 20 X $2.00 = $40.00 MD
   c. 10 X $1.50 = $15.00 MD
   d. $105.50 total MD to date
   e. $\frac{\$\ 105.50}{\$1{,}349.50}$ = 8% MD

9. $\frac{\$\ \ 600}{\$10{,}000}$ = 6% MD

10. a. $29.95 - $24.77 = $5.18
    $5.18 X 74 = $383.32 MD
    b. $24.77 - $17.77 = $7.00
    $7.00 X 26 = $182.00 MD
    c. $182.00 + $383.32 = $565.32 total MD to date
    d. $\frac{\$565.32}{\$6{,}400}$ = 9% MD

BUYING AND PRICING

ASSIGNMENT SHEET 8.03

Discount Problems

1. The Benson Department Store received a shipment of clothing with an invoice dated September 8. The total amount was $1,820 with terms 2/10, net 30.

   a. When is the net amount due? ____________________

   b. When would the invoice have to be paid in order to receive the discount? ____________________

   c. How much could be deducted if paid by that date? ________

2. The employees of Smith Jewelers, Inc., receive a 10% discount on merchandise they buy from the store. Mary Jones bought a watch retailing for $59.00. How much would she have to pay for it? ____________________

3. Sander Hardware wants to order 10 chain saws listed in a manufacturer's catalog. The retail price listed is $190 each with a trade discount of 20%, 10%, and 5%.

   a. What is the dealer's price for 1 saw? ____________________

   b. How much would 10 cost? ____________________

4. Craft Home Furnishings can buy TV sets from several major wholesalers. They want to buy 10 at the lowest possible price. Figure the two following deals:

   a. St. Louis Wholesalers, Inc., offers brand A, which retails for $400 at a trade discount of 30% plus another 5% when 5 or more are purchased on one order. What would be the net cost? ____________________

   b. Chicago Wholesalers, Inc., offers the same brand. However, the discount is 25% and 1 free set is given with the purchase of 9 sets. What would be the net cost?

      ____

   c. Which deal offers the lower net cost? ____________

5. Determine the end of the discount period for invoices for which the terms of payment are as follows:

a. 2/10, net 30; dated May 16 ____________________

b. 3/10, 90 extra; dated April 14 ____________________

c. 2/10 July 1, net 90; dated May 1 ____________________

d. 3/10 EOM, net 60; dated July 5 ____________________

BUYING AND PRICING

ASSIGNMENT SHEET 8.03

Discount Problems Key

1. a. October 8

   b. September 18

   c. $1,820 X .02 = $36.40

2. $59.00 X .10 = $5.90
   $59.00 - $5.90 = $53.10

3. a. $190 X .20 = $38.00
   $190 - $38 = $152
   $152 X .10 = $15.20
   $152 - $15.20 = $136.80
   $136.80 X .05 = $6.84
   $136.80 - $6.84 = $129.96

   b. $129.96 X 10 = $1,299.60

4. a. $400 X .30 = $120
   $400 - $120 = $280
   $280 X .05 = $14.00
   $280 - $14.00 = $266
   $266 X 10 = $2,660

   b. $400 X .25 = $100
   $400 - $100 = $300
   $300 X 9 = $2,700

   c. Deal "a" is better (lower).

5. a. May 26

   b. July 23

   c. July 10

   d. August 10

BUYING AND PRICING

LESSON PLAN #9

Time for Lesson: One 55-minute class period

Objective: After completion of this lesson, students should be able to:

16.13 Identify the factors considered by the buyer in determining the retail price on a given product or service.

Resources:

1. Information Sheet 9.01: Determining Price
2. Assignment Sheet 9.01: Determining Price
3. Assignment Sheet 9.01: Determining Price Key

Teacher Activities:

1. Distribute Information Sheet 9.01 for students to study and discuss.
2. Distribute Assignment Sheet 9.01.

Student Activities:

1. Study Information Sheet 9.01.
2. Complete Assignment Sheet 9.01

BUYING AND PRICING

INFORMATION SHEET 9.01

Determining Price

One of the most important keys to successful selling is pricing. Setting the right price for an item of merchandise improves sales and profits. Goods must be purchased which can be sold at competitive prices to customers while providing a profit to the store. In order to do this, the buyer must consider both the quality and the price of the merchandise. A one-price policy is favored by retailers in the United States--the retailer sets one price on each item for all customers. Bargaining only exists in the form of trade-in allowances on such items as cars, televisions, expensive lawn and garden equipment, etc.

Retailers set prices to earn the biggest profit in the greatest number of sales in the least amount of time. Retailers such as discount houses try to make a large number of sales at a small profit while a specialty store retailer may try to make a smaller number of sales at a large profit.

There are six factors to consider in setting prices: (1) desired profits; (2) customer appeal; (3) competition; (4) the nature of the goods; (5) prices customers are accustomed to paying; and (6) effects of inflation.

Desired profits. Every employee has a self-centered interest in helping the store make a profit. Employee salaries, rent, utilities, advertising, and supplies are store expenses. Expenses involved in providing customer services include delivery, gift wrapping, credit, alterations and installations, and free parking. Retailers must consider all these store expenses plus the cost of the merchandise and a fair profit (8%) in setting the price of merchandise. Retail price is figured as follows:

Retail Price = Cost of Goods + Store Expenses + Profit

Retail Price = $6 + 30% of Cost + 8% Profit on Cost of Goods Sold

Retail Price = $6 + $1.80 + $ .48

Retail Price = $8.28

If the cost of merchandise goes up but expenses stay the same and desired profit does not change, retailers must increase retail prices to maintain the same profit percentage.

Customer appeal. High fashion allows a retailer to set prices higher than usual if there is a big demand for the product. Desirability of the product increases both the demand and the price, but greater risk is assumed on these products due to a short and intense period of demand.

Competition. Retailers may set prices below their competition, at the same level as their competition, or above their competition. This can instigate buying merchandise at lower prices for less quality, which may result in a loss of usual customers while gaining a few new customers looking for lower quality products.

In order to be able to offer the same merchandise at a lower price than the competition, profits and expenses have to be lowered. Profits may be kept if cutting expenses does not lose customers. However, if customers are not happy with the services the retailer offers, they will seek merchandise elsewhere. In this case, the profit margin may have to be lowered.

Customers expect to pay more for high quality, high fashion merchandise in a store that provides numerous free customer services. These retailers, therefore, price their merchandise above the level of the competition.

Nature of the goods. Staple goods do not change a lot in value, and quantity of merchandise can be predicted. Therefore, prices on staple goods can be set to yield a lower profit margin. Merchandise that must be sold at high prices because of a short period of demand and a great risk of loss are specialty items. Retailers must set an initial higher selling price to offset the markdown on the goods at the end of the season or at the end of popularity.

Prices customers are accustomed to paying. Many customers set a specific price line for the goods they buy and will not willingly raise or lower that price line. For instance, in order to keep the 25¢ candy bar, candy makers are reducing the size of the bar in order to keep the 25¢ price line. Ounces of spray paint cans have also been reduced to maintain a set price.

Effects of inflation. If the cost of a wholesale item is increased, the retailer must also increase the retail price to maintain his/her profit margin. If wholesale prices increase 5%, then retail prices must be increased 5%. With prices constantly rising, customers are choosing to do without certain products in order to fight inflation. Retailers have established the following policies to retain their sales volume:

1. Many stores have stopped expenses by not giving trading stamps.

2. Customer services have been discontinued at some stores.

3. Self-service stores and a decrease in store personnel have been instigated to hold off price increases.

4. Loss leaders are offered to customers. A loss leader is an item of merchandise priced below its cost to entice customers into the store.

Retail Selling, 2nd Edition, Bodle and Corey, McGraw-Hill Book Co., pp. 390-93.

BUYING AND PRICING

ASSIGNMENT SHEET 9.01

Determining Price

Directions: Compute the following retail prices showing your work.

1. Cost of Goods $8.00
   Store Expense of Cost 35%
   Profit 8%

2. Cost of Goods $4.50
   Store Expense of Cost 35%
   Profit 8%

3. Cost of Goods $150.00
   Store Expense of Cost 25%
   Profit 10%

4. Cost of Goods $1,250.00
   Store Expense of Cost $37.50
   Profit 10%

5. Cost of Goods $10,050.00
   Store Expense of Cost 40%
   Profit 8%

6. Jaye James, a buyer for a sporting goods store, receives a report from five of the ten stores in the chain that Bouncemore tennis balls are being returned by customers. All the customer complaints are the same--poor construction.

Bouncemore retails for $3.69. Tennis Ace, which has always been a good seller, has gone up in price and retails for $4.99. Jaye does not believe the store's customers will pay the extra money for Tennis Ace balls and decides not to buy them. He/she decides, despite the complaints, to buy Bouncemore; because they will retail for less money. He/she believes that this will make it possible for the stores to meet competition.

a. Did Jaye make a mistake? If so, why?

b. What do you think Jaye should have done? Why?

c. Is Jaye's thinking about meeting competition a sound belief? Why or why not?

ASSIGNMENT SHEET 9.01

Determining Price Key

1. R = \$8 + 35% + 8%
   R = \$8 + \$2.80 + \$ .64
   R = \$11.44

2. R = \$4.50 + 35% + 8%
   R = \$4.50 + \$1.58 + \$ .36
   R = \$6.44

3. R = \$150 + 25% + 10%
   R = \$150 + \$37.50 + \$15.00
   R = \$202.50

4. R = \$1,250 + 30% + 10%
   R = \$1,250 + \$375 + \$125
   R = \$1,750

5. R = \$10,050 + 40% + 8%
   R = \$10,050 + \$4,020 + \$804
   R = \$14,874.00

6. Advantages and disadvantages should be evaluated in classroom discussion according to the teacher's discretion.

BUYING AND PRICING

LESSON PLAN #10

Time for Lesson: One 55-minute class period

Objective: After completion of this lesson, students should be able to:

16.14 Decide what the various pricing policies may be and how they influence the prices and goals of a store.

Resources:

1. Information Sheet 10.01: Pricing Policies
2. Assignment Sheet 10.01: Pricing Policies
3. Assignment Sheet 10.01: Pricing Policies Key

Teacher Activities:

1. Distribute Information Sheet 10.01 for students to study and discuss.
2. Distribute Assignment Sheet 10.01.

Student Activities:

1. Study and discuss Information Sheet 10.01.
2. Complete Assignment Sheet 10.01.

BUYING AND PRICING

INFORMATION SHEET 10.01

Pricing Policies

Every retailer wants to grow through obtaining adequate markup in a reasonable period of time. It does not follow, however, that he/she seeks maximum profit on every item sold or even on the gross amount of his/her current sales. The opportunities to grow and achieve goodwill have to be considered along with the profit opportunity.

Cost and Expense Factors in Pricing

The largest single factor in establishing a retail price is the cost of the merchandise to be sold. Also, there is the expense of handling the merchandise in terms of getting it ready for sale; and there are also expenses in selling the goods and expenses which are necessary just to keep the store open for business. The term cost is used to show money used to pay for the goods purchased, to transport them to the store, and to alter them, if necessary. The term expense is used to show all the money required to operate the store: for building (purchase or rent), for merchandise handling, for buying, for selling, and for administration.

In figuring the actual price that will be set on goods there are three kinds of expenses to be considered. Flat expenses are expenses that are about the same for every article regardless of its cost or retail price. Examples of flat expenses are handling expenses such as receiving, marking, storage, wrapping, packing, and delivery. Variable expenses are different for each item but have about the same percentage relationship to the retail price. These expenses include salespersons' salaries, advertising expenses, insurance, and interest on the investment in the goods. Markdowns and shortages may be included, if they are large. The third kind of expense is overhead--the joint costs of operating the store or department that do not vary with the number or value of the specific items being sold. Overhead includes expenses of rent and store maintenance, record keeping expenses, and supervisory and administrative expenses.

Look at the following example. Suppose that a lawn mower costs a buyer $127. Flat expenses have been found to be about $15 a mower and variable expenses have been found to be about 10 percent of sales. Compare the results of three possible prices.

Retail Price	Cost	Flat Expenses	Variable Expenses	Estimated # of Sales Each Week	Overhead and Profit
$160	$127	$15	$16	10	$ 20
$170	$127	$15	$17	8	$ 88
$180	$127	$15	$18	5	$100

At a price of $160 there would be a $20 contribution to overhead and profit. Of the three possible prices, the $180 price would contribute the most to overhead and profits and would be the best price--at least over the short run.

Another example of price adjustments figured by expense differences is the multiple price. An item may be retailed at 35 cents a unit or three for a dollar. The flat expenses of handling three as a unit may be no more than handling one and the overhead may not be increased by the larger transaction. So, the profit margin at the multiple price may be even larger than on three separate sales at the unit price.

Before prices can be determined completely, we need to look at two very important factors dealing with pricing: (1) the customer and (2) the competition.

The customer. In a middle to high income community, a high markup may be acceptable. But, this does not always mean a large profit, because the customers may demand a great deal of service and wide assortments of fashionable goods. This increases a store's expenses and its losses from reductions. In a price-conscious community, low markups may be demanded. These may be offset by low expenses and small markdowns arrived at by concentrating on fast-selling items and by giving minimum service.

Some retail merchants establish price lines. It is possible that Store A has found through experience that customers like to buy shoes in three price lines--$22, $28, and $33. The store may buy shoes at different wholesale prices but always retail them at those three prices. Store B may have many price lines. Shoes may be retailed at the price that is believed to move that style quickly. The prices may be as follows: $18.50, $22.50, $25, $27.50, $40, and perhaps still other prices.

Goods priced too low may cause customers to suspect something is wrong with the quality. If a customer generally pays $14 for a sports shirt, he/she will probably not buy a shirt of the same quality for $9.50, even if the merchant has made an advantageous buy and can make a profit at the low price. Shirts valued at $14 but marked at $9.50 may sell poorly because the customers are suspicious of their quality. The customer may be more interested if the original retail price is set at $11.

The competition. One of the major considerations in setting the price of individual items is the price the competition is receiving for the same items. For example, a supermarket may set the major portion of its individual prices so that they agree with the prices that its competitors are charging. It will then try to sell certain featured items at lower prices. Although most stores try to meet competition in prices, many compete in the offering of services, such as credit and personal services.

Variations in Markups

In the same store and even in the same department, the markups on items vary greatly. This is due partly to the varying expenses encountered on certain items. For example, a large table requires a great deal of display and storage space and will surely have to be delivered to the customer. Thus, it will normally require a higher markup than a lamp sold in the same department. The lamp occupies little space, and the customer will probably take the lamp with him/her at the time of sale.

Another reason for differences in markup lies in the amount of markdown and shortage risk. For instance, both basic styles and high fashion styles are commonly carried in the same department. The likelihood of having to markdown a classic dress style is much less than in the case of a new style. Thus, the classic dress warrants a lower markup than the high fashion dress. Similarly, the markup on basic shoe styles is generally less than that on the latest fads in footwear.

A higher-than-average markup is generally justified under the following conditions:

1. The risk of price reduction is great.
2. The expenses of handling and storage are likely to be abnormally great.
3. The goods are exclusive and not subject to direct competition.
4. Customers expect a great deal of service.

A lower-than-average markup is generally justified under the following conditions:

1. It is a staple item, carried by the same type of retailer.
2. No packaging, assembling, or delivery is needed.
3. Very little or no personal service is expected.
4. Stock turnover is high, which results in low cost per space used.
5. Volume purchases increase the merchant's dollar profit while still using an average markup.

All retailers should always watch the prices on his/her merchandise and be familar with those items selling at satisfactory margins. The alert retailer should be on the lookout to find those prices, when combined with markup and volume, for the goods sold which provide a desired profit. The retailer should also keep in mind that these prices must encourage repeat sales and promote goodwill for the business in the eyes and minds of the customers.

Promotional Sales and Pricing Policies

Policies on promotional sales have a lot to do with the pricing of the merchandise. Retailers try to cater to two types of customers:

(1) those looking for new items or who buy items when needed and (2) those looking for a bargain.

For example, a new fall dress assortment for ladies that arrives early in the season may be marked above normal. Later in the season the prices will be reduced to appeal to the bargain hunters. A normal average markup on the whole assortment is what is hoped for over the entire season.

Stores having special sales several times a year are hoping to make a profit through increased sales volume at reduced margins of profit. The overhead expenses will remain the same and after the sale the merchandise will be restored to the original prices.

Other sales may be made up of goods bought at special reduced prices. These goods may not be a regularly stocked item, but the cost may be so low that the merchant can offer a good product at a good price to the store's customers and still make a good margin of profit.

BUYING AND PRICING

ASSIGNMENT SHEET 10.01

Pricing Policies

Directions: In the space provided, place a "T" if the item is true and an "F" if the item is false.

_____ 1. Cost of merchandise to be sold is the largest single factor in determining a retail price.

_____ 2. Expense is money for goods purchased, transportation, and alterations, if necessary.

_____ 3. Cost is money required to operate the store.

_____ 4. Three kinds of expenses to be considered in figuring the retail price of a product are flat, round, and variable.

_____ 5. Price adjustments on a multiple price item will generally yield a small profit margin.

_____ 6. A high markup always means a large profit.

_____ 7. Low markups may be offset by low expenses and small markdowns.

_____ 8. Customers tend to follow an established price line.

_____ 9. Unusual store price lines may cause customers to be suspicious of the quality of the product.

_____ 10. Most stores try to meet competition in the offering of services rather than price.

_____ 11. Expenses encountered on certain products determine the percentage of markup.

_____ 12. Basic styles retain higher markups than fashions or fads.

_____ 13. Items selling at satisfactory profit margins must also encourage repeat sales and goodwill to the consumer.

_____ 14. If no packaging, assembling, or delivery is needed, a lower-than-average markup can be set.

_____ 15. If expenses of handling and storage are great, a lower-than-average markup can be set.

_____16. Retailers cater to customers wanting new items and customers wanting a bargain.

_____17. Goods bought at special reduced prices may gain a good margin of profit if the quality is good.

_____18. Normal average markups on an assortment for the season is hoped to be gained by initial high markup and later small markdowns for special sales.

BUYING AND PRICING

ASSIGNMENT SHEET 10.01

Pricing Policies Key

1. T
2. F
3. F
4. F
5. F
6. F
7. T
8. T
9. T
10. F
11. T
12. F
13. T
14. T
15. F
16. T
17. T
18. T

BUYING AND PRICING

LESSON PLAN #11

Time for Lesson: One 55-minute class period

Objective: After completion of this lesson, students should be able to:

16.15 Describe the legal restrictions placed on pricing by the "Fair Trade Acts" and the "Unfair Sales Practices Acts".

Resources:

1. Information Sheet 11.01: Legal Restrictions Placed on Pricing
2. Assignment Sheet 11.01: Legal Restrictions Placed on Pricing
3. Assignment Sheet 11.01: Legal Restrictions Placed on Pricing Key

Teacher Activities:

1. Distribute Information Sheet 11.01 for students to study and discuss.
2. Distribute and present Assignment Sheet 11.01.
3. Allow students to group and choose their work.

Student Activities:

1. Study and discuss Information Sheet 11.01.
2. Present information to instructor to complete Assignment Sheet 11.01.

BUYING AND PRICING

INFORMATION SHEET 11.01

Legal Restrictions Placed On Pricing

There are three types of pricing regulations every salesperson should be familiar with: (1) price discrimination laws; (2) resale price maintenance laws; and (3) anti-trust laws.

Price Discrimination Laws

The principal law prohibiting price discrimination is the Robinson-Patman Act. It was designed to keep producers and wholesalers from giving price advantages to favored buyers and not giving them to the favored buyer's competition. An example would be a meat wholesaler selling beef to Store A for $2.00 a pound and selling the small beef in the same quantity to Store B for $2.50. As you can see, competition wise Store A would be able to undersell Store B with a strong reduction in the retail price or could make increased profits selling at a similar retail price. The implications of such a situation would be most detrimental to Store B and would be most profitable to Store A.

It is all right for the buyer (retailer) and the seller (wholesaler) to reach an agreement on price and terms of payment, but the agreement must consider the rights of other buyers and be justifiable under the law.

Resale Price Maintenance Laws

Laws pertaining to resale price maintenance are enacted by the individual states. There are two forms of resale price maintenance laws: (1) fair-trade laws and (2) unfair-practices laws. These laws are designed to keep the retailers from cutting prices on the manufacturer's product. These laws permit manufacturers of trademarked or trade-brand goods to sign contracts, with wholesalers and retailers, setting the resale price of the products. An example would be Lewis Company setting a resale price on one of their fashion brand jeans at $30 dollars. The retailer signing this agreement would have to sell the jeans for $30.

This law helps protect the consumer in that the retailer is unable to inflate his prices and make an unreasonable amount of profit on the selling of a product.

Unfair-practice laws prevent dealers (wholesalers and retailers) from selling their merchandise below the cost price. These laws offer protection to the small business which is sometimes unable to buy in large enough quantities to get large discounts on the merchandise. An example would be large chain Store A buying 100 cases of canned fruit for 43¢ a can and selling the canned fruit on special at 35¢ a can. At the same time Store B can only buy 10 cases and has to pay 52¢ a can and cannot afford to sell at the Store A price. (Store B could possibly sell at cost [52¢], but what good would it do?)

Antitrust Laws

The main purpose of the antitrust legislation is to prevent a business from using its power to develop a monopoly or to gain control over a particular industry or service.

Four laws have been passed to help promote the basis of a free competitive enterprise system.

The laws are:

1. Sherman Antitrust Act of 1890 - Prevents businesses from uniting and restraining trade.

2. Clayton Act of 1914 - Prevents the sale or lease of merchandise on the condition that the buyer will not sell a competitor's brand. (The seller can restrict his/her sales to certain businesses but he/she cannot prevent that business from selling a competing product.)

3. Antimerger Law of 1950 - Prevents the reduction of competition through merger or consolidation of different corporations.

4. Federal Trade Commission Act of 1914 - Maintains a free enterprise system through the Federal Trade Commission.

ASSIGNMENT SHEET 11.01

Legal Restrictions Placed on Pricing

Directions: Form into small groups (at least four) and have each group select one of the four price discriminations laws discussed in class. Each group may select any one of the three tasks below or the instructor may assign the work.

1. Prepare a report on one of the four price discrimation laws to present to the class.

2. Groups could obtain copies of the various laws and prepare an in-depth written report or panel discussion on the laws.

3. Groups could interview various businesses to see how the laws effect their everyday operations and report these findings to the class.

Consult instructor for added information and ideas before beginning assignments.

ASSIGNMENT SHEET 11.01

Legal Restrictions Placed On Pricing Key

Composition or presentation of material may be evaluated by the teacher's discretion.

BUYING AND PRICING

LESSON PLAN #12

Time for Lesson: One 55-minute class period

Objective: After completion of this lesson, students should be able to:

16.16 Complete the Post-assessment test with a minimum accuracy of 75%.

Resources:

1. Post-assessment
2. Post-assessment Key

Teacher Activities:

1. Distribute Post-assessment to students.
2. Explain to students they have the class period in which to complete and turn in the Post-assessment.

Student Activity:

1. Complete Post-assessment and turn it in to the instructor.

BUYING AND PRICING

POST-ASSESSMENT

Directions: In the space provided, write the letter of the term in Column 2 that matches the definition in Column 1.

Column 1

_____ 1. Carrying items or brands not available in other stores in the trading area

_____ 2. Amount of merchandise necessary to take care of unexpected increases in sales

_____ 3. An assortment of articles that a manufacturer or a wholesaler has been unable to sell at a regular price and subsequently offers at a reduced price

_____ 4. Development of an assortment of merchandise around one or more lines that have the quality and prices desired by a majority of the customers

_____ 5. The amount that a merchant adds to the cost price of merchandise in arriving at the retail price

_____ 6. A price reduction of an item of merchandise from a former retail price to a lower asking price, except for discounts on special goods

Column 2

A. Job lot

B. Price lining

C. Exclusiveness

D. Reserve

E. Markdown

F. Markup

Directions: In the space provided, place a "T" if the item is true and an "F" if the item is false.

_____ 7. Customer's panels provide helpful opinions on merchandise as well as store procedures and services.

_____ 8. A careful analysis of past sales records tells little about what customers want and are likely to buy again.

_____ 9. Every good buyer keeps records of his past purchases and sales.

_____10. Large stores may have trained personnel who plan and conduct studies about customer preferences and their intentions to buy.

_____11. Buying motives are not aimed at acquiring goods and services.

_____12. A merchandise planning system in a retail firm does not require a great deal of record keeping.

_____13. Wholesalers and manufacturers whose lines contain a wide variety of items cannot afford to send sales representatives to call on small stores.

_____14. Rack jobbers are wholesalers who agree to merchandise a rack or counter of their line in the supermarket.

_____15. A buyer will have an excellent resource file to which to refer when in need of new stock if a resource card is made for each purchase.

_____16. Retailers find it advantageous to concentrate most of their business among a carefully selected group of vendors.

_____17. Negotiation is an attempt to get goods for less than the retail price when talking about buying merchandise.

_____18. As a general rule, it is much more important to buy the right goods than to save a few cents on the purchase price.

_____19. The largest single factor in establishing a retail price is, of course, the cost of the merchandise to be sold.

_____20. One of the major considerations in setting the price of individual items is the price that competitors are receiving for the same items.

_____21. Which of the following is an element for determining basic stock?

a. expected sales
b. credit
c. display requirements
d. rate of stock turnover
e. all of the above

_____22. Large stores make market contact by market trips, group buying, and

a. resident buying offices
b. nearness of buying source
c. central buying
d. all of the above
e. a and c only

23. Define Fair-Trade Laws.

24. What do the Unfair-Practices Laws do?

25. Determine staple stock replenishment (quantity to buy) for May requirements on April 1. The formula is Quantity to Buy = Estimated Sales + Desired Stock EOM - (Goods on Hand + Goods on Order). ________________

Estimated Sales: Brand "A" volleyballs.

April-May	14 dozen
June	20 dozen
July	40 dozen

Goods on hand, April 1	7 dozen
Goods on order, April 1	10 dozen
Desired stock May 30	30 dozen

26. Determine the maximum which must be on hand. The formula is M = S(RP + DP) + R. Use the following information from Judy's Jewelry Store:

Expected sale is 50 gold bracelets.
Judy orders every 3 weeks.
Delivery is every 2 weeks.
A reserve of 20 bracelets is on hand. ________________

27. Calculate the open-to-buy (OTB) for Harley's Hat shop using the formula OTB = M - (SOH + MO). ________________

Maximum	$91,000
Actual stock on hand	$28,000
Goods on order	$16,000

28. Markup must be 50% of cost of goods. The cost of goods is $80. Find the selling price. ____________________

29. At Shirley's Sweet Shop 50 bags of gumdrops were marked down from $3.00 to $2.50. Sales for the month were $1,000.

a. What is the total MD? ________________
b. What is the MD%? _____________________

30. If the chain discount is 20%, 15%, 5%, what would be the dealer's price of a piano listing for $2,000? ____________

31. What would be the trade discount for the retailers on the $2,000 piano if the manufacturer offers it to the dealer for a 25% discount? What would be the retailer's cost?

_______________ ____________________

BUYING AND PRICING

POST-ASSESSMENT KEY

1. C
2. D
3. A
4. B
5. F
6. E
7. T
8. F
9. T
10. T
11. F
12. F
13. F
14. T
15. T
16. T
17. F
18. T
19. T
20. T
21. e
22. e

23. Permits manufacturers or distributors of trade-marked or branded goods to set the prices at which these goods will be resold by contract between wholesalers and retailers

24. Keeps dealers from selling merchandise below cost

25. 14 + 30 - 17 = 27 dozen to buy April 1

26. 50(3 + 2) + 20 = 270

27. \$91,000 = (\$28,000 + \$16,000) = \$47,000 OTB

28. \$80 X .50 = \$40
\$80 + \$40 = \$120

29. 50 X .50 = \$25.00
$\frac{\$25.}{\$1,000}$ = .025 or 2.5% or 3%

30. \$2,000 X .20 = \$400
\$2,000 - \$400 = \$1,600
\$1,600 X .15 = \$240
\$1,600 - \$240 = \$1,360
\$1,360 X .05 = \$68
\$1,360 - \$68 = \$1,292

31. \$2,000 X .25 = \$500
\$2,000 - \$500 = \$1,500

BUYING AND PRICING

LESSON PLAN #13

Time for Lesson: One 55-minute class period

Objective: After the completion of this unit, students will be able to:

16.17 Choose a product and determine how to buy and price it for a local store.

Resources:

1. Unit Evaluation
2. Unit Evaluation Key

Teacher Activity:

1. Explain and administer the Unit Evaluation to the students.

Student Activity:

1. Complete and turn in the Unit Evaluation to the instructor.

BUYING AND PRICING

UNIT EVALUATION

Name ____________________

Career Interest ____________________

Co-op student: Select one item of merchandise not currently carried in your department for study in this project. The item could be in the staple goods area or in the fashion goods area. Check with the buyer in your department for suggestions of items he/she might be considering. Seek the buyer's advice on where information might be secured for the project activity guide below. Clear the proposed interview with the teacher-coordinator before approaching the buyer.

Project student: Select one item of merchandise that interests you for study as an item that might be stocked in a store. You can select an item that is sold in the area of your career interest or that you, as a teenager, would find interesting. Make the item either a staple goods item or a fashion goods item. Use the project activity guide below to help you decide whether you would recommend stocking it. Contact a local buyer, subject to your teacher's approval, for his/her opinion on the item if you want professional help.

1. Name of article __________ 2. Staple or fashion goods __________

3. Indicate at least four sources of product information that you used. Also, show what you learned from each source.

	Source	Useful Information
a.	____________________	____________________ ____________________
b.	____________________	____________________ ____________________
c.	____________________	____________________ ____________________
d.	____________________	____________________ ____________________

4. Assume you are the buyer. Make the following decisions based on the information you obtained. If the information was not available, make an educated guess.

   a. For what price should you sell it? ______________

      Why? ____

   b. What are the profit possibilities? ______________________

   c. Justify the answers given above. ______________________

      ____

      ____

      ____

      ____

BUYING AND PRICING

UNIT EVALUATION KEY

Success of the Unit Evaluation is to be determined by the instructor's discretion.

BUYING AND PRICING

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